IIBF- BC / BF Notes

Module A: GENERAL BANKING
Chapter 1: Structure of Indian Banking and Types of Banks

1.1 Objectives
1.2 Introduction
1.3 Need of Banking Services
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1.5 Structure of Indian Banking System
1.6 Functions of Banks
1.7 Regulation and Supervision of Banking in India
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The **structure of the Indian banking system** is organized into different levels based on ownership, functions, and regulation.

Explanation

1. **Reserve Bank of India (RBI)**
    - Central bank of India.
    - Regulates and supervises the banking system.
    - Issues currency and formulates monetary policy.
2. **Scheduled Banks**
    - Banks listed under the Second Schedule of the RBI Act, 1934.
    - Include:
        - **Commercial Banks**
            - Public Sector Banks (e.g., State Bank of India)
            - Private Sector Banks (e.g., HDFC Bank, ICICI Bank)
            - Foreign Banks (e.g., Citibank, HSBC)
            - Small Finance Banks
            - Payments Banks
        - **Regional Rural Banks (RRBs)**
            - Provide banking services in rural and semi-urban areas.
3. **Cooperative Banks**
    - Operate on the principle of cooperation.
    - Include:
        - Urban Cooperative Banks
        - Rural Cooperative Banks (State Cooperative Banks, District Central Cooperative Banks, Primary Agricultural Credit Societies)
4. **Development Banks**
    - Provide long-term finance for specific sectors.
    - Examples include NABARD (agriculture), SIDBI (small industries), and EXIM Bank (exports and imports).

Key Features

- **RBI** is the apex regulatory authority.
- **Commercial banks** provide general banking services to individuals and businesses.
- **Regional Rural Banks** focus on rural development.

- **Cooperative banks** cater mainly to local communities and agriculture.
- **Development banks** support economic and industrial growth through long-term financing.

Types of Banks in India

Banks in India can be classified according to their **ownership, functions, area of operation, and regulatory status**.

1. Commercial Banks

Commercial banks accept deposits and provide loans and other banking services.

Types:

- **Public Sector Banks** – majority government ownership
  Example: State Bank of India, Punjab National Bank
- **Private Sector Banks** – privately owned
  Example: HDFC Bank, ICICI Bank, Axis Bank
- **Foreign Banks** – headquartered outside India but operating in India
  Example: HSBC, Standard Chartered

2. Regional Rural Banks (RRBs)

RRBs primarily serve **farmers, agricultural workers, small businesses, and rural communities**.

3. Cooperative Banks

These are based on cooperative principles and primarily serve members, local communities, agriculture, and small businesses.

Major categories:

- Urban Cooperative Banks
- State Cooperative Banks
- District Central Cooperative Banks
- Primary Agricultural Credit Societies (PACS)

4. Small Finance Banks

These focus on providing banking services to **small businesses, small and marginal farmers, micro and small industries, and underserved sections**.

5. Payments Banks

Payments Banks provide limited banking services, particularly **deposits, payments, and remittances**. They do not function like full-service lending banks.

6. Development Banks / Financial Institutions

These provide specialized or long-term finance for economic development.

Examples:

- **NABARD** – agriculture and rural development
- **SIDBI** – small and medium enterprises
- **EXIM Bank** – international trade
- **NHB** – housing finance development

7. Central Bank

At the apex is the **Reserve Bank of India (RBI)**, which is India's central bank. It regulates the banking system, conducts monetary policy, manages currency, and oversees important aspects of financial stability.

Simple Classification

Type	Main Purpose
Central Bank	Monetary policy and banking regulation
Commercial Banks	General banking and lending
Public Sector Banks	Government-owned commercial banking
Private Sector Banks	Privately owned commercial banking
Foreign Banks	Banking by overseas institutions
Regional Rural Banks	Rural and agricultural banking
Cooperative Banks	Cooperative/local banking
Small Finance Banks	Financial inclusion and small borrowers
Payments Banks	Payments, deposits and remittances
Development Banks/Financial Institutions	Specialized development finance

In short: India's banking structure consists broadly of the **RBI → commercial banks, cooperative banks, RRBs, small finance banks, payments banks, and specialized development financial institutions**.

List of Banking Services

Banking services are the various financial services provided by banks to individuals, businesses, government institutions, and other organizations.

1. Deposit Services

- Savings account
- Current account
- Salary account
- Fixed Deposit (FD)
- Recurring Deposit (RD)
- Term deposits
- NRE/NRO and other specialized accounts

2. Loan and Credit Services

- Personal loans
- Home loans
- Vehicle loans
- Education loans
- Gold loans
- Agricultural loans
- Business loans
- Working-capital loans
- Overdraft facilities
- Cash credit facilities
- Credit cards

3. Payment and Money Transfer Services

- Cheque payments
- Demand drafts
- NEFT
- RTGS
- IMPS
- UPI
- Electronic fund transfers
- Standing instructions
- Bill payments
- Merchant payments

4. Digital Banking Services

- Internet banking
- Mobile banking
- ATM services
- Debit cards
- Credit cards
- QR-code payments
- E-statements
- Online account opening
- Digital KYC services

5. Investment and Wealth Services

- Demat accounts
- Mutual fund services
- Government securities
- Bonds
- Fixed-income investment products
- Portfolio/wealth management
- Investment advisory services

6. Foreign Exchange Services

- Currency exchange
- Foreign currency accounts
- Foreign remittances
- International money transfers
- Forex cards
- Import and export foreign-exchange services

7. Trade and Business Banking

- Letters of credit
- Bank guarantees
- Bill discounting
- Trade finance
- Export finance
- Import finance
- Cash management
- Corporate banking

8. Agency and Utility Services

Banks may act as agents for customers and provide:

- Collection of cheques and bills
- Collection of dividends and interest
- Payment of pensions
- Tax payments
- Insurance-related services
- Government payment/collection services

9. Locker and Custodial Services

- Safe deposit lockers
- Safe custody of documents and valuables
- Custodial services for securities

10. Financial Inclusion Services

- Basic savings accounts
- Banking correspondent services
- Rural banking
- Microfinance-related services
- Direct Benefit Transfer (DBT)
- Financial literacy services

11. Other Specialized Services

- Merchant banking
- Investment banking
- Trustee services
- Pension-related services
- Insurance distribution
- Demat and securities-related services
-

Broad Classification

Category	**Examples**
Deposit Services	Savings, Current, FD, RD
Credit Services	Loans, Overdraft, Credit Cards
Payment Services	UPI, NEFT, RTGS, IMPS
Digital Services	Mobile Banking, Internet Banking, ATM
Investment Services	Mutual Funds, Bonds, Demat
Forex Services	Currency Exchange, Foreign Remittance
Business Services	Trade Finance, Bank Guarantees, LC
Agency Services	Collection, Tax/Pension Payments
Custodial Services	Lockers, Safe Custody
Financial Inclusion	Basic Accounts, DBT, Rural Banking

In academic terms, banking services can broadly be divided into:

(1) accepting deposits,

(2) lending money,

(3) payment/remittance services,
(4) agency services, and
(5) miscellaneous/specialized financial services.

Need of Banking Services

Banking services are essential for the smooth functioning of the **economy, businesses, government, and individuals**. They facilitate the safe management, transfer, borrowing, and investment of money.

1. Safe Custody of Money

Banks provide a secure place to keep money through savings, current, and deposit accounts.

2. Mobilization of Savings

Banks collect savings from individuals and institutions and channel these funds into productive economic activities.

3. Provision of Credit

Banks provide loans and credit facilities for:

- Education
- Housing
- Agriculture
- Business
- Industry
- Personal requirements

4. Facilitation of Payments

Banking services make it easy to make and receive payments through:

- UPI
- Debit and credit cards
- Cheques
- NEFT
- RTGS
- IMPS
- Internet and mobile banking

5. Promotion of Business and Trade

Businesses depend on banks for working capital, trade finance, bank guarantees, letters of credit, payment processing, and other financial facilities.

6. Encouragement of Investment

Banks provide access to various investment and financial products, helping people and organizations manage their surplus funds.

7. Foreign Trade and Remittances

Banks facilitate international transactions, foreign exchange, imports, exports, and remittances.

8. Economic Development

Banking institutions channel financial resources toward agriculture, industries, infrastructure, services, and other productive sectors, contributing to economic growth.

9. Financial Inclusion

Banking services help bring financially underserved people into the formal financial system, particularly through rural banking, basic accounts, digital payments, and small loans.

10. Government Transactions

Banks facilitate government-related financial activities such as tax payments, pensions, subsidies, and Direct Benefit Transfers (DBT).

11. Convenience and Time Saving

Digital banking allows customers to conduct many transactions **24 hours a day**, without visiting a bank branch.

12. Financial Security and Records

Banking transactions provide documented records of payments, receipts, deposits, and withdrawals, which help individuals and businesses manage their finances.

Importance at a Glance

Need	**Purpose**
Safety	Protects money and valuables
Savings	Encourages saving
Credit	Provides loans and finance
Payments	Enables convenient transactions
Investment	Helps deploy surplus funds
Business	Supports trade and commercial activities
Foreign Exchange	Facilitates international transactions
Financial Inclusion	Brings underserved groups into formal banking
Economic Growth	Channels funds into productive activities
Government Services	Facilitates pensions, taxes, subsidies, etc.

Conclusion

Banking services are needed to provide financial security, mobilize savings, supply credit, facilitate payments, support businesses and trade, promote investment, achieve financial inclusion, and contribute to overall economic development.

Functions of All Kinds of Banks in India

The Indian banking system consists of several types of banks and banking institutions. Each performs different functions according to its purpose and area of operation.

1. Reserve Bank of India (RBI) — Central Bank

The **Reserve Bank of India** is the apex monetary and banking authority.

Functions:

- Issues and manages currency.
- Formulates and implements monetary policy.
- Regulates and supervises banks.
- Acts as banker to the Central and State Governments.
- Acts as banker to banks.
- Manages foreign exchange reserves.
- Regulates payment and settlement systems.
- Maintains financial and monetary stability.

- Acts as lender of last resort.

2. Public Sector Banks
These are commercial banks in which the government has majority ownership.
Functions:
- Accept deposits.
- Provide loans and advances.
- Provide savings and current accounts.
- Facilitate digital and electronic payments.
- Finance agriculture, businesses, industries, and infrastructure.
- Implement government banking schemes.
- Promote financial inclusion.
- Provide foreign exchange and remittance services.

Example: State Bank of India, Punjab National Bank, Bank of Baroda.

3. Private Sector Banks
These are commercial banks primarily owned by private shareholders.
Functions:
- Accept deposits.
- Provide personal, housing, vehicle, education, and business loans.
- Provide credit and debit cards.
- Offer internet and mobile banking.
- Facilitate UPI, NEFT, RTGS and IMPS transactions.
- Provide investment and wealth-management services.
- Provide corporate and international banking services.

Examples: HDFC Bank, ICICI Bank, Axis Bank.

4. Foreign Banks
These are banks incorporated outside India that operate in India through branches or other permitted structures.
Functions:
- Provide banking services to individuals and businesses.
- Finance international trade.
- Provide foreign exchange services.
- Facilitate international remittances.
- Provide corporate and investment banking.
- Support import and export transactions.
- Serve multinational corporations.

Examples: HSBC, Standard Chartered, Deutsche Bank.

5. Regional Rural Banks (RRBs)
RRBs primarily serve rural and semi-urban areas.
Functions:
- Provide agricultural loans.
- Finance small and marginal farmers.
- Provide loans to agricultural workers.

- Support rural businesses and entrepreneurs.
- Accept deposits from rural customers.
- Promote financial inclusion.
- Implement government-sponsored rural development schemes.
- Provide banking facilities in underserved rural areas.

6. Cooperative Banks

Cooperative banks operate on cooperative principles and primarily serve their members and local communities.

A. Urban Cooperative Banks

Functions:

- Accept deposits.
- Provide loans to individuals and small businesses.
- Finance small-scale industries and traders.
- Provide payment and remittance services.
- Support local economic activity.

B. Rural Cooperative Banks

These include **State Cooperative Banks, District Central Cooperative Banks, and Primary Agricultural Credit Societies (PACS)**.

Functions:

- Provide agricultural credit.
- Finance farming and allied activities.
- Provide short- and medium-term rural credit.
- Mobilize rural savings.
- Support agricultural marketing and related activities.

7. Small Finance Banks (SFBs)

These banks focus particularly on underserved and financially weaker segments.

Functions:

- Accept deposits.
- Provide small loans.
- Finance micro and small enterprises.
- Provide loans to small and marginal farmers.
- Support low-income households.
- Provide banking services in underserved areas.
- Promote financial inclusion.

8. Payments Banks

Payments banks specialize in **small deposits, payments, and remittance services**. They operate under restrictions on lending.

Functions:

- Accept eligible deposits.
- Provide payment services.
- Facilitate money transfers and remittances.
- Provide debit/ATM card facilities.
- Facilitate UPI and other digital payments.

- Provide mobile and internet banking.
- Support financial inclusion.

9. Development Banks / Development Financial Institutions

These institutions provide specialized finance for particular sectors rather than functioning simply as ordinary commercial banks.

NABARD - National Bank for Agriculture and Rural Development

Functions:

- Provides and supports agricultural and rural credit.
- Promotes rural development.
- Refinances eligible rural financial institutions.
- Supports rural infrastructure.
- Supervises certain cooperative banks and RRBs.

SIDBI - Small Industries Development Bank of India

Functions:

- Provides and facilitates finance for MSMEs.
- Supports entrepreneurship.
- Provides refinancing and other financial assistance.
- Promotes development of the MSME sector.

EXIM Bank - Export-Import Bank of India

Functions:

- Provides finance for exports and imports.
- Supports Indian exporters.
- Provides overseas investment finance.
- Facilitates international trade.
- Provides specialized trade-related financial services.

National Housing Bank (NHB)

Functions:

- Promotes housing finance.
- Supports development of housing-finance institutions.
- Provides refinance and related assistance.
- Supports development of the housing-finance sector.

10. Investment Banks / Merchant Banking Institutions

These institutions primarily assist companies and organizations with capital-market and corporate-finance activities.

Functions:

- Raising capital.
- Underwriting securities.
- Managing public issues.
- Mergers and acquisitions advisory.
- Corporate restructuring.

- Financial advisory services.
- Capital-market services.

11. Specialized Banks

Some institutions are created to serve particular financial or developmental purposes.

Functions may include:

- Financing specific industries or sectors.
- Providing long-term development finance.
- Supporting infrastructure.
- Financing international trade.
- Supporting housing, agriculture, MSMEs, or other priority sectors.

Summary Table

Type of Bank	Main Functions
RBI	Monetary policy, regulation, currency, banking supervision
Public Sector Banks	Deposits, loans, government and commercial banking
Private Sector Banks	Commercial, retail, corporate and digital banking
Foreign Banks	International, corporate and foreign-exchange banking
RRBs	Rural and agricultural banking
Cooperative Banks	Cooperative, agricultural and local credit
Small Finance Banks	Small loans and financial inclusion
Payments Banks	Deposits, payments and remittances
NABARD	Agriculture and rural development finance
SIDBI	MSME finance and development
EXIM Bank	Export-import and international trade finance
NHB	Housing finance development
Investment/Merchant Banks	Capital raising and corporate financial services

In one line

Different banks have different specialized functions, but collectively they mobilize savings, provide credit, facilitate payments, support trade and investment, promote financial inclusion, and contribute to India's economic development.

Meaning of Bank and Banking

1. Meaning of Bank

A **bank** is a financial institution that accepts deposits from the public, provides loans and advances, facilitates payments and money transfers, and offers various other financial services.

Simple Definition
A bank is an institution that accepts money from the public as deposits and uses those funds for lending, investment, and providing financial services.
Main Activities of a Bank

- Accepting deposits
- Granting loans and advances
- Transferring money
- Facilitating payments
- Providing credit and debit cards
- Providing digital banking services
- Foreign exchange services
- Investment and financial services
- Safe custody and locker facilities

2. Meaning of Banking
Banking refers to the business and activities carried out by banks in connection with accepting deposits, lending money, facilitating payments, and providing other financial services.
Simple Definition
Banking is the business of accepting deposits from the public for lending or investment and providing various financial services.
In India, the **Banking Regulation Act, 1949** provides the legal framework for banking companies. In general terms, banking involves accepting deposits from the public, withdrawable according to agreed conditions, for the purpose of lending or investment.

Difference Between Bank and Banking

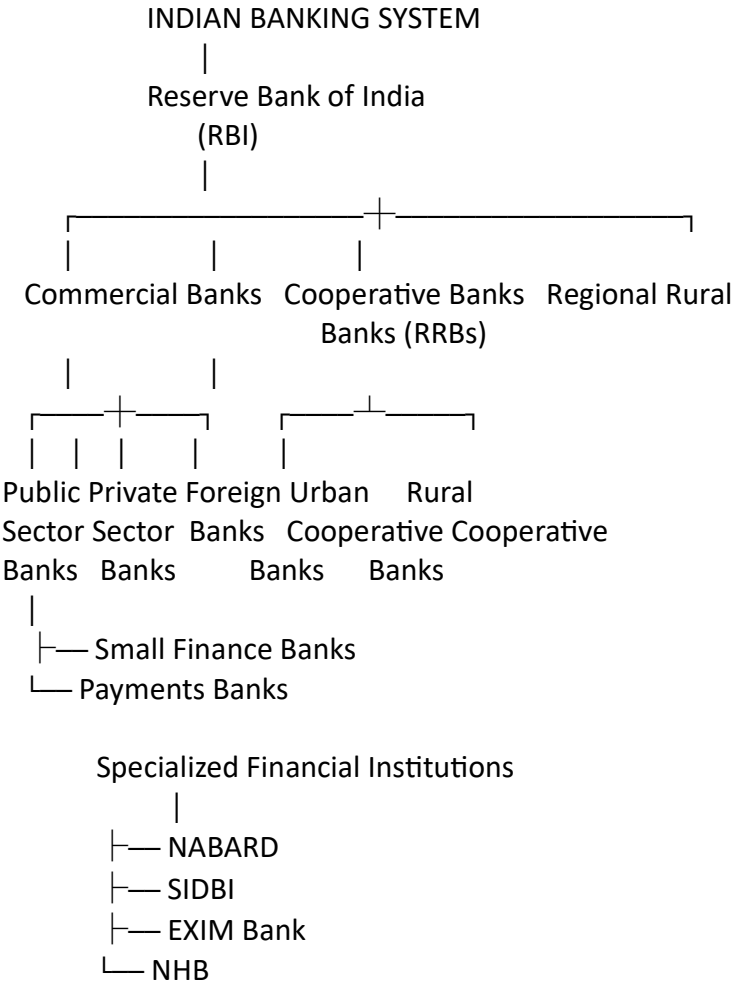
Bank	**Banking**
A **bank is an institution**.	**Banking is an activity or business**.
It is an organization that provides financial services.	It refers to the activities performed by banks.
Example: State Bank of India.	Example: accepting deposits, granting loans and processing payments.
It has a physical and/or digital organizational structure.	It represents the overall process of providing banking services.

In Short
Bank = The financial institution
Banking = The business and activities performed by the financial institution.

Structure of the Indian Banking System

The **Indian Banking System** is a structured network of the **Reserve Bank of India (RBI), commercial banks, cooperative banks, Regional Rural Banks, and specialized financial institutions**. The RBI stands at the apex of the banking system.

1. Basic Structure



2. Reserve Bank of India (RBI)

The **RBI** is India's **central bank and the apex monetary authority**.

Major functions

- Regulates and supervises banks.
- Formulates monetary policy.
- Issues and manages currency.
- Acts as banker to the government.
- Acts as banker to banks.
- Manages foreign exchange reserves.
- Regulates payment and settlement systems.
- Promotes financial stability.

3. Commercial Banks

Commercial banks conduct banking business primarily for individuals, businesses, and other organizations.

A. Public Sector Banks
Banks in which the government has majority ownership.
Examples:
- State Bank of India
- Punjab National Bank
- Bank of Baroda
- Canara Bank

B. Private Sector Banks
Banks primarily owned by private shareholders.
Examples:
- HDFC Bank
- ICICI Bank
- Axis Bank
- Kotak Mahindra Bank

C. Foreign Banks
Banks incorporated outside India that operate in India under applicable regulations.
Examples:
- HSBC
- Standard Chartered
- Deutsche Bank

4. Regional Rural Banks (RRBs)
RRBs were established to provide banking and credit facilities particularly in **rural and semi-urban areas**.
Main focus
- Agriculture
- Small and marginal farmers
- Agricultural workers
- Small entrepreneurs
- Rural businesses
- Financial inclusion

5. Cooperative Banks
Cooperative banks operate on cooperative principles and serve members and local communities.
They can broadly be divided into:
A. Urban Cooperative Banks
Serve customers in urban and semi-urban areas.
B. Rural Cooperative Credit Structure
This includes:
State Cooperative Banks → District Central Cooperative Banks → Primary Agricultural Credit Societies (PACS)
They mainly support:
- Agriculture
- Rural credit
- Small borrowers
- Agricultural and allied activities

6. Small Finance Banks

Small Finance Banks are specialized banks established primarily to promote **financial inclusion**.

They serve:

- Small businesses
- Small and marginal farmers
- Micro and small industries
- Low-income households
- Underserved sections of society

They accept deposits and provide loans, subject to RBI regulations.

7. Payments Banks

Payments Banks focus on **small deposits, payments, and remittance services**.

Main services

- Deposits within permitted limits
- Money transfers
- Remittances
- Digital payments
- Debit cards
- UPI and other payment services

They have restrictions on lending and therefore are different from full-service commercial banks.

8. Specialized Financial Institutions

India also has specialized financial institutions serving particular sectors of the economy.

Institution	Main Area
NABARD	Agriculture and rural development
SIDBI	Micro, Small and Medium Enterprises
EXIM Bank	Export and import finance
NHB	Housing finance
NaBFID	Infrastructure finance

These institutions complement the banking system by providing specialized and developmental finance.

9. Scheduled and Non-Scheduled Banks

Another important classification is based on the **Second Schedule of the RBI Act, 1934**.

Scheduled Banks

Banks included in the Second Schedule of the RBI Act, 1934 and satisfying the applicable requirements.
They include:

- Scheduled Commercial Banks
- Scheduled Cooperative Banks

Non-Scheduled Banks

Banks that are not included in the Second Schedule of the RBI Act.

Complete Classification at a Glance

Level / Type	Main Role
RBI	Central banking and regulation
Commercial Banks	General banking and credit
→ Public Sector Banks	Government-owned commercial banking
→ Private Sector Banks	Private commercial banking
→ Foreign Banks	International/foreign banking
RRBs	Rural and agricultural banking
Cooperative Banks	Cooperative and local/rural credit
Small Finance Banks	Financial inclusion and small-borrower finance
Payments Banks	Payments, deposits and remittances
Development/Financial Institutions	Specialized and developmental finance

Important Note

The **RBI is not simply another commercial bank**. It is the **central bank and regulator at the apex of the banking system**. Also, institutions such as **NABARD, SIDBI, EXIM Bank, NHB and NaBFID** are specialized financial institutions and should be distinguished from ordinary commercial banks.

Exam Definition

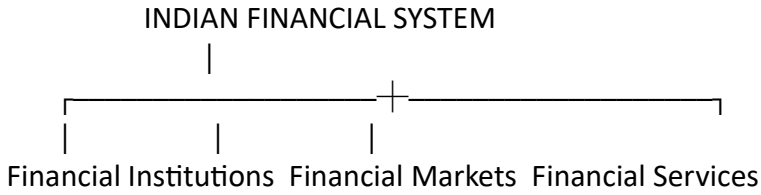
The Indian Banking System is a hierarchical and diversified financial system headed by the Reserve Bank of India, comprising commercial banks, Regional Rural Banks, cooperative banks, small finance banks, payments banks, and specialized financial institutions that perform different functions for monetary management, credit creation, financial inclusion and economic development.

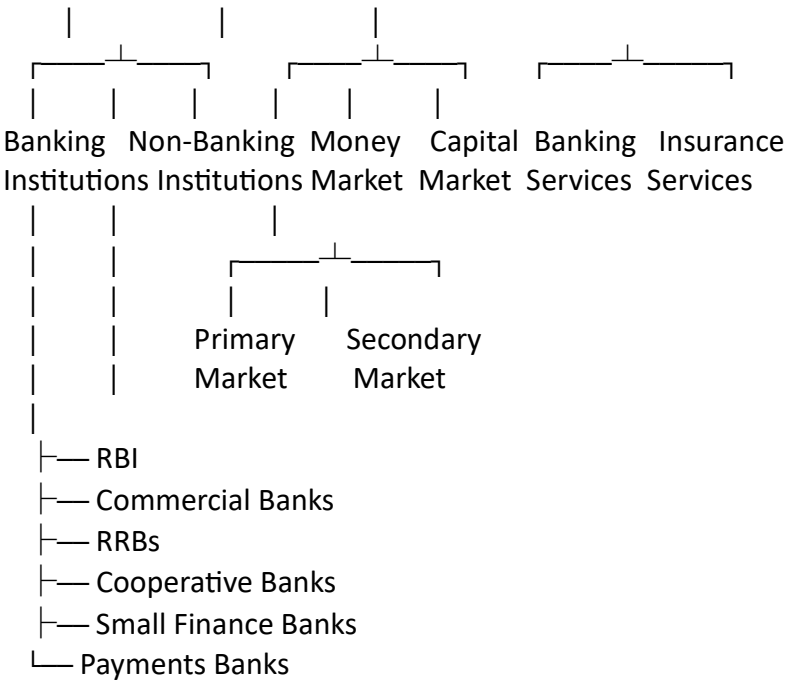
Structure of the Indian Financial System

The **Indian Financial System** is the framework through which **savings are mobilized, credit is provided, investments are made, and financial transactions are facilitated** in the economy.

It is broader than the banking system because it includes **financial institutions, financial markets, financial instruments, and financial services**.

1. Basic Structure





2. Financial Institutions

Financial institutions act as **intermediaries between savers and borrowers/investors**.

A. Banking Institutions

These include:

- **Reserve Bank of India (RBI)**
- Public Sector Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks
- Cooperative Banks
- Small Finance Banks
- Payments Banks

B. Non-Banking Financial Institutions

These include institutions such as:

- **NBFCs** – Non-Banking Financial Companies
- Insurance companies
- Mutual funds
- Pension funds
- Development financial institutions
- Housing finance institutions
- Other specialized financial intermediaries

C. Development Financial Institutions

Important institutions include:

Institution	Main Function
NABARD	Agriculture and rural development
SIDBI	MSME development and finance

Institution	Main Function
EXIM Bank	Export-import finance
NHB	Housing finance development
NaBFID	Infrastructure finance

3. Financial Markets

Financial markets provide a platform for **buying and selling financial assets**.

They can broadly be divided into:

A. Money Market

The money market deals primarily with **short-term funds and financial instruments**, generally with maturities of up to one year.

Major instruments

- Treasury Bills
- Commercial Paper
- Certificate of Deposit
- Call/notice money
- Repo and related instruments

Main purpose: Meeting short-term liquidity and financing requirements.

B. Capital Market

The capital market deals primarily with **medium- and long-term funds**.

It consists of:

Primary Market

Where new securities are issued.

Examples:

- Initial Public Offer (IPO)
- Further Public Offer (FPO)
- Rights Issue
- Private placement

Secondary Market

Where already-issued securities are bought and sold.

Examples:

- Stock exchanges
- Equity trading
- Bond trading

4. Financial Instruments

Financial instruments are contracts or assets representing **financial value or claims**.

Major types

Money-market instruments

- Treasury Bills
- Commercial Paper
- Certificates of Deposit
- Repurchase agreements

Capital-market instruments

- Equity shares
- Preference shares
- Debentures
- Corporate bonds
- Government securities

Other financial instruments

- Mutual fund units
- Derivatives
- Insurance products
- Pension products

5. Financial Services

Financial services facilitate the use and management of money and financial assets.

Major financial services

- Deposit services
- Loans and advances
- Payment and remittance services
- Investment services
- Insurance services
- Mutual fund services
- Merchant banking
- Investment banking
- Leasing
- Factoring
- Foreign exchange services
- Portfolio management
- Credit-rating services
- Pension services
- Digital financial services

6. Financial Regulators

The Indian financial system is regulated by several specialized regulatory authorities.

Regulator	Main Area
RBI	Banking, monetary system and payment systems
SEBI	Securities and capital markets
IRDAI	Insurance sector
PFRDA	Pension sector
IFSCA	Financial services in International Financial Services Centers

7. Financial Infrastructure

The financial system also depends on institutions and systems that enable transactions and settlement. These include:

- Stock exchanges
- Clearing corporations
- Depositories
- Payment systems
- Settlement systems
- Credit information companies
- Credit-rating agencies
- Financial technology platforms

Complete Structure at a Glance

Component	Major Elements
Financial Institutions	Banks, NBFCs, insurance companies, mutual funds, development institutions
Financial Markets	Money market and capital market
Financial Instruments	Shares, bonds, securities, deposits, derivatives
Financial Services	Banking, insurance, investment, payments, leasing, etc.
Financial Regulators	RBI, SEBI, IRDAI, PFRDA, IFSCA
Financial Infrastructure	Exchanges, clearing, settlement, depositories, payment systems

Banking System vs Financial System

Banking System	Financial System
Mainly concerned with banking institutions and activities	Much broader system
Includes banks and banking institutions	Includes banks, NBFCs, markets, instruments and services
RBI is the central banking authority	Multiple regulators operate within the system
Deposits and loans are major activities	Includes investment, securities, insurance, pensions, payments, etc.

Exam Definition

The Indian Financial System is a network of financial institutions, financial markets, financial instruments, financial services, regulatory bodies and financial infrastructure through which funds are mobilized from savers and allocated to borrowers and investors for productive economic activities.

Regulation and Supervision of Banking in India

Banking regulation and supervision refers to the legal, regulatory, and monitoring framework through which the banking sector is controlled to ensure **financial stability, depositor protection, sound banking practices, and public confidence**.

In India, the **Reserve Bank of India (RBI)** is the principal regulator and supervisor of banks.

1. Main Regulatory Authority — RBI

The RBI performs the central role in regulating and supervising the banking system.

Major responsibilities

- Regulates banks and certain banking activities.
- Issues banking licenses and authorizations.
- Prescribes prudential norms.
- Supervises banks' financial condition and operations.
- Regulates capital adequacy and risk management.
- Monitors liquidity and asset quality.
- Regulates payment and settlement systems.
- Protects the interests of depositors.
- Takes corrective and enforcement action where necessary.
- Promotes stability and confidence in the financial system.

2. Legal Framework

Banking in India operates under several important laws and regulations.

A. Reserve Bank of India Act, 1934

Provides the statutory basis for the establishment and functions of the RBI.

B. Banking Regulation Act, 1949

Provides the principal legal framework for regulating banking companies in India.

It covers matters such as:

- Licensing of banks
- Management and governance
- Capital and reserves
- Branch expansion
- Inspection
- Regulation of banking business
- Restrictions on certain activities
- RBI's supervisory and regulatory powers

C. State Bank of India Act, 1955

Provides the statutory framework relating to the State Bank of India.

D. Banking Companies (Acquisition and Transfer of Undertakings) Acts

Provide the legal framework for nationalization and ownership of certain public-sector banks.

E. Deposit Insurance and Credit Guarantee Corporation Act, 1961

Provides the statutory framework for **deposit insurance** through DICGC.

3. Regulation of Different Types of Banks

Type of Bank	**Principal Regulatory Framework**
Commercial Banks	RBI and applicable banking laws
Public Sector Banks	RBI + Government framework + applicable laws
Private Sector Banks	RBI + Banking Regulation Act
Foreign Banks	RBI + applicable Indian banking laws
Regional Rural Banks	RBI + NABARD + applicable RRB legislation/regulations
Cooperative Banks	RBI and, depending on the type, state/central cooperative authorities
Small Finance Banks	RBI
Payments Banks	RBI

Important: Cooperative banking has a distinctive regulatory structure, with RBI playing the banking-regulation role while cooperative-law matters may also involve the appropriate cooperative authorities.

4. Licensing and Authorization

The RBI regulates entry into the banking sector.

It determines whether an institution meets applicable requirements relating to:

- Capital
- Ownership
- Management
- Governance
- Financial soundness
- Business plans
- Public interest
- Fit-and-proper criteria

Banks generally require appropriate regulatory authorization before commencing banking activities.

5. Prudential Regulation

Prudential regulation is intended to ensure that banks remain financially sound.

The RBI prescribes requirements relating to areas such as:

Capital Adequacy

Banks must maintain adequate capital relative to their risks.

Asset Quality

Banks must properly classify and monitor loans and other assets.

Income Recognition

Banks must follow prescribed rules for recognizing income, particularly in relation to stressed loans.

Provisioning

Banks must make appropriate provisions against expected or identified losses.

Liquidity

Banks must maintain adequate liquidity to meet their obligations.

Risk Management

Banks must manage risks including:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Interest-rate risk

6. Supervision and Inspection

The RBI supervises banks through **off-site monitoring, on-site inspections, regulatory reporting, surveillance, and other supervisory mechanisms**.

It examines areas such as:

- Financial position
- Loan portfolios
- Capital adequacy
- Asset quality

- Governance
- Risk management
- Internal controls
- Compliance with regulations

Banks are required to submit various returns and information to the regulator.

7. Corporate Governance

Banking regulation places considerable importance on sound governance.
Banks are expected to maintain:

- Competent boards
- Appropriate management structures
- Internal controls
- Audit systems
- Risk-management frameworks
- Compliance functions
- Transparency and disclosure

The objective is to prevent mismanagement and excessive risk-taking.

8. Regulation of Loans and Advances

The RBI regulates various aspects of bank lending.
This includes requirements concerning:

- Credit appraisal
- Exposure limits
- Concentration of credit
- Connected lending
- Priority-sector lending
- Loan classification
- Provisioning
- Recovery and resolution of stressed assets

9. Customer and Depositor Protection

Banking regulation also seeks to protect customers.
Important areas include:

- Fair treatment of customers
- Transparency in charges and terms
- Grievance-redress mechanisms
- Protection against unauthorized transactions
- Customer identification and KYC requirements
- Deposit insurance

Deposit Insurance

Eligible bank deposits are insured by the **Deposit Insurance and Credit Guarantee Corporation (DICGC)**, subject to the applicable statutory limit and conditions.

10. KYC and Prevention of Financial Crime

Banks are required to comply with **Know Your Customer (KYC)** and applicable anti-money-laundering requirements.

They must:

- Identify and verify customers.
- Maintain appropriate customer records.
- Monitor transactions.
- Report specified transactions to the appropriate authorities.
- Follow applicable requirements under the Prevention of Money-Laundering framework.

11. Regulation of Digital Banking and Payments

The RBI also regulates important aspects of digital banking and payment systems.

This includes areas such as:

- Internet banking
- Mobile banking
- Digital payment systems
- Payment security
- Electronic fund transfers
- Card-related activities
- Customer protection in digital transactions

12. Corrective and Enforcement Measures

When a bank faces financial or regulatory problems, the regulator can take appropriate supervisory or enforcement action.

Depending on the circumstances, measures may include:

- Directions to the bank
- Restrictions on certain activities
- Penalties
- Enhanced supervision
- Corrective action
- Management or governance-related measures where legally permitted
- Resolution or other statutory measures for serious cases

The objective is to **restore financial soundness and protect depositors and the wider financial system**.

13. Role of Other Regulators and Institutions

Banking regulation does not operate in isolation.

RBI

Principal regulator and supervisor of banks and monetary authority.

SEBI

Regulates India's securities and capital markets.

IRDAI

Regulates insurance.

PFRDA

Regulates the pension sector.

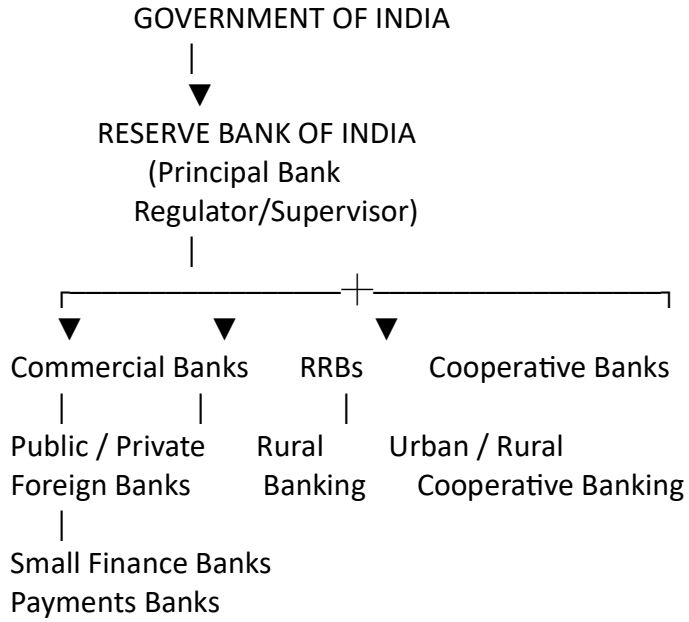
DICGC

Provides deposit insurance for eligible deposits.

NABARD

Has important supervisory and developmental responsibilities concerning specified rural and cooperative banking institutions.

Regulatory Structure — Simple Diagram



Other Financial Regulators/Institutions

- SEBI → Securities Market
- IRDAI → Insurance
- PFRDA → Pension
- DICGC → Deposit Insurance
- NABARD → Rural/Cooperative Development & specified supervision

Objectives of Banking Regulation and Supervision

The main objectives are to:

1. **Maintain financial stability**
2. **Protect depositors**
3. **Ensure sound banking practices**
4. **Control excessive financial risks**
5. **Promote public confidence in banks**
6. **Ensure compliance with banking laws**
7. **Prevent financial crimes and misuse of the banking system**
8. **Promote efficient and inclusive banking**
9. **Maintain the stability of payment systems**
10. **Protect the overall financial system**

In Short

Banking regulation establishes the rules that banks must follow, while banking supervision monitors whether banks are complying with those rules and remaining financially sound. In India, the RBI is the principal authority responsible for the regulation and supervision of banks.

Legislation Ensuring the Banking Regulatory Framework in India

India's banking regulatory framework is based on a **combination of banking-specific legislation, financial-sector laws, recovery laws, anti-money-laundering laws, and legislation governing particular categories of banks and financial institutions**. The RBI itself identifies the RBI Act, Banking Regulation Act, RDB Act, SARFAESI Act, PMLA and Companies Act, among others, as part of the legislative framework for regulation of banks. (Reserve Bank of India)

A. Core Banking Legislation

No.	Legislation	Year	Main purpose
1	**Reserve Bank of India Act**	1934	Establishes the statutory framework for the RBI and its monetary functions
2	**Banking Regulation Act**	1949	Principal legislation governing banking companies and banking regulation
3	**State Bank of India Act**	1955	Provides the statutory framework for SBI
4	**Deposit Insurance and Credit Guarantee Corporation Act**	1961	Provides the legal framework for deposit insurance
5	**Banking Companies (Acquisition and Transfer of Undertakings) Acts**	1970 & 1980	Govern nationalisation and transfer of specified banking undertakings
6	**Regional Rural Banks Act**	1976	Provides the legal framework for RRBs
7	**Banking Laws (Amendment) legislation**	Various years	Amends banking laws to strengthen regulation and supervision

These statutes are included among the Central Acts administered/identified in the financial-services legislative framework. (India Code)

B. Banking Operations and Transactions

8. Negotiable Instruments Act, 1881

Provides the legal framework for negotiable instruments such as:

- Cheques
- Bills of exchange
- Promissory notes

It is particularly important for cheque-related banking transactions. (India Code)

9. Bankers' Books Evidence Act, 1891

Provides rules concerning the evidentiary use of banks' books and records in legal proceedings. (India Code)

10. Companies Act, 2013

Applies to banks and financial companies in areas such as corporate governance, accounts, audit and company administration, subject to the special banking framework. The RBI identifies it as part of the legislative framework relevant to bank regulation. (Reserve Bank of India)

C. Credit, Recovery and Insolvency Legislation

11. Recovery of Debts and Bankruptcy Act, 1993

Provides a legal mechanism for recovery of debts due to banks and financial institutions through specialized tribunals.

12. SARFAESI Act, 2002

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

Provides mechanisms relating to:

- Securitization
- Asset reconstruction
- Enforcement of security interests
- Recovery of secured loans

The RBI expressly identifies both the RDB Act and SARFAESI Act within the legislative framework for bank regulation. (Reserve Bank of India)

13. Insolvency and Bankruptcy Code, 2016

Provides a consolidated framework for insolvency resolution and liquidation of companies, firms and individuals, with significant importance for resolution of stressed assets and bank loans.

D. Anti-Money-Laundering and Customer Protection

14. Prevention of Money-Laundering Act, 2002 (PMLA)

Provides the legal framework for preventing and dealing with money laundering.

It supports requirements relating to:

- KYC
- Customer identification
- Record keeping
- Monitoring/reporting of specified transactions
- Prevention of financial-system misuse

The PMLA is expressly identified by the RBI as part of the legislative framework applicable to banks. (Reserve Bank of India)

15. Banning of Unregulated Deposit Schemes Act, 2019

Provides a framework for prohibiting and regulating unregulated deposit schemes and protecting depositors from such schemes. (India Code)

E. Foreign Exchange and International Banking

16. Foreign Exchange Management Act, 1999 (FEMA)

Provides the legal framework for foreign exchange management in India.

It is important for:

- Foreign exchange transactions
- International remittances
- Imports and exports
- Foreign investments
- Cross-border financial transactions

F. Legislation for Specialized Banking/Financial Institutions

Several institutions have their own statutory frameworks.

Legislation	Institution / Area
National Bank for Agriculture and Rural Development Act, 1981	NABARD
National Housing Bank Act, 1987	Housing-finance framework/NHB
Factoring Regulation Act, 2011	Factoring business
National Bank for Financing Infrastructure and Development Act, 2021	NaBFID
Multi-State Co-operative Societies Act, 2002	Multi-State cooperative sector

The RBI's legislative framework specifically identifies the NABARD Act, NHB Act and NaBFID Act for the relevant financial institutions. (Reserve Bank of India)

Important Laws — Exam-Oriented List

For a **Banking Regulation and Supervision** syllabus, the most important legislation to study is:

1. **Reserve Bank of India Act, 1934**
2. **Banking Regulation Act, 1949**
3. **State Bank of India Act, 1955**
4. **Deposit Insurance and Credit Guarantee Corporation Act, 1961**
5. **Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980**
6. **Regional Rural Banks Act, 1976**
7. **Negotiable Instruments Act, 1881**
8. **Bankers' Books Evidence Act, 1891**
9. **Recovery of Debts and Bankruptcy Act, 1993**
10. **Foreign Exchange Management Act, 1999**
11. **Prevention of Money-Laundering Act, 2002**
12. **SARFAESI Act, 2002**
13. **Credit Information Companies (Regulation) Act, 2005**
14. **Companies Act, 2013**
15. **Insolvency and Bankruptcy Code, 2016**
16. **Banning of Unregulated Deposit Schemes Act, 2019**
17. **National Bank for Financing Infrastructure and Development Act, 2021**

Note: This is an **indicative list, not an exhaustive list**. The RBI itself describes its legislative framework as an "indicative list only." (Reserve Bank of India)

Simple hierarchy

Banking regulation in India =

RBI Act + Banking Regulation Act + Bank-specific Acts + Deposit Insurance + Payment/Transaction Laws + KYC/PML Laws + Recovery/IBC Laws + Foreign Exchange Laws + Corporate Laws.

RBI — legislative framework for regulation of banks
India Code — Central Acts, Financial Services legislation

Banking in **2026** is being reshaped less by traditional branch expansion and more by **AI, digital payments, tokenization, cybersecurity, and changing competitive/regulatory pressures**. The major recent trends are:

1. **AI moving from experiments into core banking operations.** Banks are deploying generative and increasingly agentic AI for customer service, fraud detection, credit analysis, compliance, software development and back-office automation. The challenge is shifting from “Can we use AI?” to **how to scale it safely with reliable data, governance and measurable ROI**. A 2026 KPMG survey found 80% of banking

executives expect AI to significantly disrupt their operating and business models over the next three to five years.

2. **Faster and more digital payments.** Real-time payment systems are becoming increasingly important, putting pressure on banks to modernize older payment infrastructure. In the U.S., for example, banks are investing in RTP and Fed Now integration, while similar instant-payment initiatives are developing internationally.
3. **Stablecoins, tokenized deposits and tokenization.** This is becoming one of the biggest strategic questions for banks. Stablecoins can enable faster, programmable payments, while banks and central banks are experimenting with **tokenized commercial-bank deposits and central-bank money**. The BIS argues that tokenization could improve the financial system but also warns that widespread stablecoin adoption could affect bank funding, credit provision and financial stability.
4. **Open banking and embedded finance.** Banking services are increasingly being delivered through APIs and integrated into non-bank platforms. Customers can give authorized providers access to financial data, while payments, lending and other services become embedded directly into digital commerce. Regulation is evolving alongside this trend; for example, the UK is developing a longer-term regulatory framework for Open Banking.
5. **Cybersecurity and AI-enabled fraud becoming strategic risks.** AI helps banks detect fraud, but attackers can also use it for phishing, impersonation and automated cyberattacks. The IMF warns that AI can increase the **speed and scale** at which vulnerabilities are discovered and exploited, potentially turning cyber incidents into systemic financial risks.
6. **Greater dependence on cloud and third-party technology.** Banks continue moving infrastructure toward cloud services and specialized technology providers. That improves scalability but creates **concentration and operational-resilience risks** when many institutions depend on the same providers. European regulators identify third-party ICT dependency, cyberattacks and digital fraud as increasingly important operational risks.
7. **More cautious lending and competition from non-banks.** Despite technological innovation, traditional lending remains relatively restrained in many markets because of economic and geopolitical uncertainty, moderate growth and competition from private credit and other non-bank lenders. S&P Global expects global bank credit growth to remain relatively cautious during 2026.
8. **Branches are becoming less central to the banking model.** Mobile-first services, automated onboarding, digital identity and AI customer support continue shifting routine transactions away from physical branches. Branches increasingly concentrate on complex advice, wealth management, business banking and relationship-based services rather than basic transactions.

In short: the banking model is moving from **"bank as a place" → "bank as a digital platform."** The strongest forces behind that transition are **AI + real-time payments + tokenization + open banking**, while the biggest constraints are **cybersecurity, regulation, legacy technology and trust**.

For a university/business answer, these trends can also be grouped neatly into **technological, customer, competitive, regulatory and risk-management trends**.

Module A: GENERAL BANKING
Chapter 2: Various Deposit Schemes and other Services
2.1 Objectives
2.2 Introduction
2.3 Types of Deposits
2.4 Demand Deposits
2.5 Term Deposits (Excluding Hybrid Deposits or Flexi Deposits)
2.6 Insurance of Bank Deposits by DICGC
2.7 Remittances

Types of Deposits

A **deposit** is money placed by a customer with a bank for safekeeping and/or earning interest. Deposits are an important source of funds for banks, which use them for lending and other banking activities.

1. Savings Deposit

- Designed mainly for **individuals and households**.
- Encourages regular saving.
- Interest is generally paid on the balance maintained.
- Withdrawals and transactions may be subject to account rules.
- Suitable for salaried persons, students, pensioners, etc.

2. Current Deposit

- Mainly used by **businesses, firms and institutions**.
- Allows frequent deposits and withdrawals.
- Generally, provides high transaction flexibility.
- Traditionally, current accounts do not pay interest, although specific products may differ.
- Useful for day-to-day business transactions.

3. Fixed Deposit (Term Deposit)

- Money is deposited for a **fixed period**, such as a few months or years.
- Usually offers a higher interest rate than ordinary savings deposits.
- Premature withdrawal may be allowed subject to applicable terms and penalties.
- Suitable for customers seeking relatively predictable returns.

4. Recurring Deposit

- Customer deposits a **fixed amount periodically**, usually every month, for a predetermined period.
- Helps develop a regular saving habit.
- Interest is paid according to the applicable deposit scheme.
- Suitable for people who want to accumulate money gradually.

5. Demand Deposit

A deposit that can generally be withdrawn **on demand**, subject to the account's terms.
It mainly includes:

- **Savings deposits**
- **Current deposits**

6. Time Deposit

A deposit kept with a bank for a **specified period**.
It generally includes:

- **Fixed/term deposits**
- **Recurring deposits**

Simple Classification

Basis	Types
Withdrawable on demand	Savings Deposit, Current Deposit
Held for a specified period	Fixed Deposit, Recurring Deposit
Regular periodic savings	Recurring Deposit
Business transactions	Current Deposit
Personal savings	Savings Deposit
Lump-sum investment	Fixed Deposit

In short: The four basic deposit accounts commonly discussed in banking are **Savings Deposit, Current Deposit, Fixed/Term Deposit and Recurring Deposit**.

Demand Deposits

Meaning:

A **demand deposit** is a deposit kept with a bank that can be **withdrawn by the customer whenever required**, without having to give advance notice to the bank. These deposits are highly liquid and are mainly used for everyday transactions.

Types of Demand Deposits

1. **Savings Deposit**
    - Mainly meant for individuals and households.
    - Encourages saving.
    - Interest is generally paid on the balance.
    - Withdrawals and transactions are subject to the account's terms.
2. **Current Deposit**
    - Mainly used by businesses, firms and institutions.
    - Permits frequent deposits and withdrawals.
    - Primarily intended for business and commercial transactions.
    - Traditionally does not pay interest, subject to the particular account's terms.

Characteristics of Demand Deposits

- **Withdrawable on demand**
- **Highly liquid**
- Can be used for **payments and transactions**
- Usually operated through **cheques, debit cards, online banking, UPI and other payment methods**
- Banks may provide interest depending on the type of deposit and applicable rules
- Form an important source of **low-cost funds for banks**

Demand Deposit vs. Time Deposit

Basis	Demand Deposit	Time Deposit
Withdrawal	Generally, on demand	Usually after a specified period
Liquidity	High	Relatively lower
Main examples	Savings, Current	Fixed/Term, Recurring
Purpose	Transactions and accessible savings	Saving/investment for a specified period
Interest	Depends on account type	Generally paid according to the deposit scheme

In simple terms:
Demand deposit = Money that can generally be withdrawn whenever you need it.
Bank Deposits Used in Import and Export
In **international trade**, importers and exporters use several types of bank accounts and deposit arrangements to manage payments, receive export proceeds, provide security, and meet foreign-exchange requirements.

1. Current Account

- The most commonly used deposit account for **importers and exporters**.
- Suitable for frequent and large-value transactions.
- Used for receiving export payments and making payments to foreign suppliers.
- Businesses can use banking channels for remittances related to trade.

2. EEFC Account — Exporters
EEFC = Exchange Earners' Foreign Currency Account

- Mainly useful for **exporters and other foreign-exchange earners in India**.
- Allows eligible foreign-exchange earnings to be held in a foreign currency account with an authorized dealer bank.
- Helps exporters use eligible foreign-currency balances for permitted transactions without immediately converting them into Indian rupees.
- Particularly useful for managing foreign-exchange exposure.

3. Fixed/Term Deposit

- Importers or exporters may place surplus funds in **term deposits** when those funds are not immediately required.
- Provides interest income while the money is kept for the agreed period.
- Less suitable for immediate trade payments because withdrawal may be subject to the deposit's terms.

4. Margin Deposit

- A bank may require an importer/exporter to maintain a **margin or security deposit** for certain trade facilities.
- It may serve as security for facilities such as **letters of credit, bank guarantees or other trade-finance arrangements**.
- The amount and conditions depend on the bank and the facility.

5. Cash Credit/Trade-Finance Account
Although not technically a deposit account, businesses frequently use **cash-credit and other working-capital facilities** alongside their bank deposits.

- Helps finance purchases, inventory and receivables.
- Importers may use trade-finance facilities to meet supplier-payment requirements.
- Exporters may obtain finance against eligible export orders or receivables.

6. Special Export-Related Accounts
For Indian banking, export transactions can involve specific accounts and arrangements prescribed under **RBI foreign-exchange regulations**. The exact account permitted depends on the nature of the transaction, the status of the customer and applicable FEMA/RBI rules.

Summary

Deposit/Account	Main use in Import/Export
Current Account	Regular import/export transactions
EEFC Account	Holding eligible foreign-exchange earnings
Fixed/Term Deposit	Investment of surplus trade funds
Margin Deposit	Security for trade-finance facilities
Cash Credit Account	Working-capital financing
Trade-finance arrangements	Financing international trade payments

Important distinction: Not every instrument used in import/export banking is technically a *deposit*. **Letters of credit, bank guarantees, bills of exchange, documentary collections, pre-shipment/post-shipment finance and export credit** are mainly **trade-finance instruments**, rather than types of bank deposits.

Term Deposits — Including Hybrid/Flexi Deposits

Meaning

A **Term Deposit** is a deposit in which a customer places money with a bank for a **specified period at an agreed rate of interest**. The principal and interest are normally paid at maturity, although premature withdrawal may be permitted according to the bank's terms.

Term deposits are also called **Time Deposits** or **Fixed Deposits**, depending on the product structure.

Types of Term Deposits

1. Fixed Deposit (FD)

- A lump sum is deposited for a predetermined period.
- Interest is paid according to the applicable deposit scheme.
- At maturity, the customer receives the principal plus applicable interest.
- Premature withdrawal may be permitted subject to applicable conditions.
- Suitable for customers who have funds that are not immediately required.

2. Recurring Deposit (RD)

- A fixed amount is deposited periodically, usually every month.
- The deposit continues for a predetermined period.
- Interest is calculated according to the applicable scheme.
- Suitable for systematic savings.

3. Flexi Deposit

A **Flexi Deposit** combines features of a **savings/current account and a fixed deposit**.

Main features:

- Surplus funds can be transferred from the linked operating account into a term deposit.
- When additional funds are required, the customer may be able to withdraw the required amount from the linked deposit, subject to the product's rules.
- It provides greater liquidity than an ordinary fixed deposit.
- It may be known by different names, such as **Flexi FD, Sweep FD, Auto-Sweep Deposit or Sweep-in Deposit**, depending on the bank.

Example:

A customer maintains ₹1,00,000 in a savings/current account. If the bank's threshold is ₹50,000, the excess ₹50,000 may automatically be placed into a term deposit. If the account later needs funds, the required amount can be brought back from the deposit under the applicable sweep facility.

4. Hybrid Deposit

A **Hybrid Deposit** combines characteristics of different deposit products, particularly **liquidity and term-deposit returns**.
Depending on the bank's product, it may allow:

- A portion of the money to remain readily accessible.
- The remaining amount to earn term-deposit interest.
- Partial withdrawal or premature closure under specified conditions.
- A combination of savings/current-account access with a term-deposit component.

Note: "Hybrid Deposit" and "Flexi Deposit" are not necessarily standardized banking categories. Banks may use these terms for different product structures, so the exact withdrawal, interest and sweep conditions must be checked in the particular bank's product terms.

Term Deposit vs Flexi Deposit

Feature	**Ordinary Term Deposit**	**Flexi Deposit**
Deposit period	Fixed	Usually linked to a term-deposit period
Interest	Generally predetermined	Generally based on applicable term-deposit rate
Liquidity	Relatively low	Higher
Automatic transfer	Usually no	Often available
Partial withdrawal	Depends on bank/product	Generally, a key feature
Best suited for	Long-term/specified-period savings	Savings with occasional liquidity requirements

Importance of Term Deposits

1. **Safe investment avenue**
2. **Predictable interest income**
3. **Encourages saving**
4. **Useful for surplus funds**
5. **Provides banks with stable funds for lending**
6. **Flexi products provide a balance between liquidity and returns**

Simple Classification
Term Deposits
→ **Fixed Deposits**
→ **Recurring Deposits**
→ **Flexi/Sweep Deposits**
→ **Hybrid Deposits**
In simple terms:
Term Deposit = Higher stability and predetermined tenure
Flexi Deposit = Term-deposit benefits + greater liquidity
Hybrid Deposit = Combination of features of different deposit products

Insurance of Bank Deposits by DICGC
DICGC stands for **Deposit Insurance and Credit Guarantee Corporation**. It is a wholly owned subsidiary of the **Reserve Bank of India (RBI)** and provides deposit insurance to eligible bank depositors in India.

Meaning

Deposit insurance is a system that protects depositors against the loss of their insured bank deposits if an insured bank fails or its license is cancelled.

The purpose is to:

- Protect small depositors
- Maintain public confidence in banks
- Promote stability in the banking system
- Reduce the risk of bank runs

Deposit Insurance Limit

DICGC currently insures eligible deposits up to a maximum of **₹5 lakh per depositor per bank**, including:

- **Principal amount**, and
- **Interest accrued**

Thus, the maximum insurance cover is **₹5 lakh**, not ₹5 lakh separately for each account.

Deposits Covered

Generally, the following deposits are covered:

1. **Savings deposits**
2. **Current deposits**
3. **Fixed/term deposits**
4. **Recurring deposits**
5. Other eligible deposits covered under the DICGC framework

Deposits Not Covered

Certain deposits are excluded from DICGC insurance, including:

- Deposits of foreign governments
- Deposits of Central and State Governments
- Deposits of State Land Development Banks with State Co-operative Banks
- Inter-bank deposits
- Deposits received outside India
- Certain deposits specifically excluded under the applicable law
-

How the ₹5 Lakh Limit Works

The insurance limit is applied to the **aggregate amount held by a depositor in the same right and same capacity in the same bank**.

For example:

Deposits in the same bank	**Amount**
Savings account	₹2,00,000
Fixed deposit	₹2,50,000
Recurring deposit	₹1,00,000
Total	**₹5,50,000**

If these deposits are held in the **same right and same capacity**, DICGC insurance would generally cover up to **₹5 lakh**, subject to the applicable rules.

Separate Coverage

Deposits may receive separate insurance coverage where they are held in **different rights and capacities**.
For example, deposits held:

- Individually
- Jointly
- In certain distinct legal capacities

may be treated separately for insurance purposes, subject to DICGC rules.

Premium

The **bank**, not the individual depositor, pays the deposit-insurance premium to DICGC.
Therefore, eligible depositors do **not normally have to pay DICGC separately** to obtain deposit insurance.

Banks Covered

DICGC insurance applies to eligible deposits maintained with insured banks, including relevant categories of:

- Commercial banks
- Regional Rural Banks
- Local Area Banks
- Eligible cooperative banks

Importance of DICGC

DICGC → Deposit Insurance → Protection of Depositors → Public Confidence → Banking Stability

Exam Definition

DICGC deposit insurance is a mechanism under which eligible bank deposits are insured against loss in the event of specified bank failure, currently providing insurance cover up to ₹5 lakh per depositor per bank, subject to the applicable rules.

Important: DICGC insurance is **not ₹5 lakh for every account**. The limit is generally **₹5 lakh per depositor per bank**, with deposits in the same right and capacity aggregated.

Compounding of Interest by Banks on Different Types of Deposits

Compounding of interest means that interest earned on a deposit is added to the principal, and subsequent interest is calculated on the **principal plus previously accumulated interest**. Thus, the depositor earns **interest on interest**.

The method and frequency of compounding depend on the **type of deposit** and the applicable banking/RBI rules.

1. Savings Bank Deposit

In a savings account, banks generally:

- Calculate interest on the **daily closing balance**.
- Credit interest to the account **at prescribed intervals**, commonly quarterly.
- Once credited, the interest becomes part of the account balance and can subsequently earn interest.

Example:

If ₹1,00,000 is maintained in a savings account, interest is calculated on the eligible daily balance. If interest is credited quarterly, the credited amount increases the balance.

Important: The interest-calculation frequency and the interest-credit frequency are not necessarily the same thing.

2. Fixed Deposit / Term Deposit

Fixed deposits generally provide for **periodic compounding**, depending on the product selected.
Common arrangements include:

- **Quarterly compounding** – very common for bank term deposits.
- **Monthly interest payout** – where interest is paid periodically rather than reinvested.
- **Cumulative deposit** – interest is periodically compounded and reinvested until maturity.
- **Non-cumulative deposit** – interest is paid to the depositor at the selected periodic interval.

For a cumulative fixed deposit, the basic compound-interest relationship is:
genui{"learning_viz":{"type_id":"COMPOUND_INTEREST","content":"FV=PV(1+r)^n"}}
Example:
Suppose ₹1,00,000 is deposited at 8% p.a., compounded quarterly, for 1 year.
Quarterly rate = 8% ÷ 4 = 2%
Number of quarters = 4
Maturity value:
₹1,00,000 × $(1.02)^4$ ≈ ₹1,08,243
The approximately ₹8,243 represents the accumulated interest.

3. Recurring Deposit (RD)

A recurring deposit consists of **regular periodic instalments**, usually monthly.
The bank calculates interest on each instalment for the period for which it remains with the bank. Since instalments are deposited at different times, the calculation differs from a lump-sum fixed deposit.
For example:

Instalment	**Period earning interest**
1st monthly instalment	Longest period
2nd instalment	Slightly shorter
3rd instalment	Still shorter
Last instalment	Shortest period

Thus, the depositor earns interest on the accumulated instalments according to the applicable RD methodology.

4. Cumulative / Reinvestment Deposit

Under a **cumulative deposit**, interest is not normally paid out to the depositor during the deposit period.
Instead:
Principal → Interest added → Revised principal → Further interest → Maturity amount
Therefore, compounding has a significant effect on the final maturity value.
This is particularly useful for depositors who want **wealth accumulation rather than regular income**.

5. Non-Cumulative / Interest-Payout Deposit

Under a non-cumulative term deposit:

- Principal remains deposited for the agreed term.
- Interest is paid periodically.
- Interest paid out is **not added to the principal for further compounding**.

For example, a depositor may choose:

- Monthly interest
- Quarterly interest

- Half-yearly interest
- Annual interest

This arrangement is generally suitable for persons seeking **regular income**.

6. Special / Tax-Saving Term Deposits

Tax-saving bank deposits generally have a specified lock-in period. The interest may be calculated and compounded according to the terms of the particular deposit product.

The tax treatment of the interest is separate from the mathematical calculation of compound interest.

Comparison

Deposit type	Basis of interest	Typical treatment
Savings Account	Daily balance	Interest calculated on eligible balance and credited periodically
Fixed/Term Deposit – cumulative	Deposited principal + accumulated interest	Interest reinvested/compounded
Fixed/Term Deposit – non-cumulative	Principal	Interest periodically paid out
Recurring Deposit	Periodic instalments	Interest calculated according to RD methodology
Tax-saving FD	Principal under term-deposit terms	Interest treatment as specified by the product
Special deposits	Depends on product	Compounding/payment according to deposit terms

Simple distinction

Cumulative deposit:

Interest is **added back to the deposit** → further interest is earned.

Non-cumulative deposit:

Interest is **paid to the depositor** → it is not reinvested in that deposit.

From the bank's point of view

Compounding determines the **effective cost of deposits** to the bank. The bank therefore has to correctly:

1. Determine the applicable interest rate.
2. Calculate interest according to the prescribed method.
3. Apply the appropriate compounding frequency.
4. Credit interest on the prescribed dates.
5. Calculate maturity proceeds correctly.
6. Account for premature withdrawal and applicable interest adjustments.
7. Deduct tax where legally required.

In short: Compounding increases the depositor's return when interest is reinvested, while periodic interest payout provides liquidity but normally does not produce the same compounding benefit within that deposit.

Bank Remittances

Meaning of Bank Remittance

A **bank remittance** is the **transfer of money from one person, business, or bank account to another person, business, or account**, through a banking or authorized payment system.

Remittances may be made **within the same country (domestic remittance)** or **between different countries (international/foreign remittance)**.

Banks provide remittance services for purposes such as:

- Sending money to family members
- Business payments
- Payment of salaries and wages
- Import and export transactions
- Education and travel expenses
- Investment and other permitted transactions
- Government and institutional payments

Types of Bank Remittances

Bank remittances can be classified in several ways.

A. Domestic Remittances

Domestic remittance means transferring money **within the same country**.

Common methods in India include:

1. NEFT — National Electronic Funds Transfer

- Electronic transfer of funds between bank accounts.
- Suitable for retail and business payments.
- Available through participating banks.
- Transfers are processed according to the applicable NEFT system.

2. RTGS — Real Time Gross Settlement

- Used mainly for **large-value transfers**.
- Transactions are settled individually on a real-time basis.
- Particularly useful for urgent high-value business payments.

3. IMPS — Immediate Payment Service

- Provides **instant electronic fund transfers**.
- Available 24×7 through participating banks.
- Useful when funds need to be transferred quickly.

4. UPI — Unified Payments Interface

- Enables instant account-to-account payments through participating applications.
- Widely used for retail payments.
- Can be used by individuals and businesses.

5. Banker's Cheque / Demand Draft

- A bank issues an instrument directing payment to the specified beneficiary.
- Traditionally used for secure domestic payments, although electronic transfers have reduced their importance for many transactions.

B. International Remittances

An **international remittance** is a transfer of money **from one country to another** through banks or authorized financial institutions.

Examples include:

- A person in India sending money to a family member abroad.
- An Indian importer paying an overseas supplier.
- An overseas customer sending payment to an Indian exporter.
- An Indian student paying tuition fees to a foreign university.
-

Common forms/methods

1. SWIFT Transfer

SWIFT = Society for Worldwide Interbank Financial Telecommunication

Banks use the SWIFT network to exchange standardized payment instructions for international transactions.

The actual movement of funds generally occurs through the banking institutions and correspondent-bank arrangements involved in the transaction.

2. Wire Transfer

A **wire transfer** is an electronic transfer of funds between financial institutions, particularly useful for international payments.

3. Foreign Inward Remittance

Money is **received into India from another country**.

Example:

An Indian resident receives money from a family member working overseas.

4. Foreign Outward Remittance

Money is **sent from India to another country**, subject to applicable foreign-exchange laws and regulations.

Example:

An Indian resident makes a permitted payment to a foreign university.

C. Trade Remittances

Remittances are particularly important in **international trade**.

1. Import Remittance

Payment made by an **Indian importer to a foreign exporter/supplier** for goods or services.

Example:

Indian Importer → Bank → Foreign Bank → Foreign Exporter

2. Export Remittance

Payment received by an **Indian exporter from an overseas buyer**.

Example:

Foreign Buyer → Foreign Bank → Indian Bank → Indian Exporter

These transactions are subject to applicable foreign-exchange and trade regulations.

D. Remittances Based on Direction

Type	Meaning
Inward Remittance	Money received from another location/country
Outward Remittance	Money sent to another location/country
Domestic Remittance	Transfer within the country
International Remittance	Transfer between countries

E. Remittances Based on Purpose

1. Personal Remittance
Money transferred for personal or family purposes.

2. Commercial Remittance
Money transferred for business transactions.

3. Trade Remittance
Payments connected with **imports and exports**.

4. Salary/Wage Remittance
Transfer of salary or wages to an individual's bank account.

5. Education Remittance
Payments made for tuition, accommodation and other permitted educational expenses abroad.

6. Investment Remittance
Money transferred for permitted investments, subject to applicable regulations.

Bank Remittance Process

A simplified remittance process is:
Remitter → Remitter's Bank → Payment/Settlement Network → Beneficiary's Bank → Beneficiary
For an international remittance:
Remitter → Remitting Bank → Correspondent/Intermediary Bank(s) → Beneficiary Bank → Beneficiary
The exact process depends on the payment method, currencies, banks involved and applicable regulations.

Difference Between Remittance and Deposit

Basis	Remittance	Deposit
Meaning	Transfer of money	Money placed with a bank
Main purpose	Send/receive funds	Save, hold or earn interest
Movement	Money moves from remitter to beneficiary	Money remains deposited until withdrawn
Examples	NEFT, RTGS, IMPS, UPI, international transfer	Savings, current, fixed and recurring deposits

In simple terms
Bank deposit = Money kept with a bank.
Bank remittance = Money transferred through a bank from one person/account/location to another.
For **banking and international trade**, the major categories to remember are **domestic remittances, international remittances, inward remittances, outward remittances, import remittances and export remittances**.

NEFT, RTGS, IMPS, UPI and International Transfer

These are different **methods or systems for transferring money through banks**. They differ in speed, settlement mechanism, use cases and whether the transfer is domestic or international.

System	Full Form	Nature	Main Use	Settlement/Speed
NEFT	National Electronic Funds Transfer	Domestic electronic transfer	Routine transfers	Processed through RBI's NEFT system; available 24×7
RTGS	Real Time Gross Settlement	Domestic electronic transfer	High-value, time-critical transfers	Real-time, transaction-by-transaction settlement
IMPS	Immediate Payment Service	Domestic instant transfer	Urgent retail/business transfers	Instant, 24×7
UPI	Unified Payments Interface	Instant account-to-account payment system	Everyday digital payments	Generally instant, 24×7
International Transfer	—	Cross-border transfer	Import/export, family, education, business, etc.	Depends on banks, currencies, correspondent arrangements and payment system

1. NEFT

NEFT — National Electronic Funds Transfer

NEFT is an electronic funds-transfer system that enables customers to transfer money from one bank account to another within India.

Features:

- Used for domestic transfers.
- Available **24×7**.
- Suitable for routine payments.
- Transactions are processed in **half-hourly batches**.
- There is no RBI-imposed minimum or maximum amount, although individual banks may prescribe limits for particular channels.

Example:

A customer transfers ₹50,000 from their bank account to a supplier's account using NEFT.

2. RTGS

RTGS — Real Time Gross Settlement

RTGS is a payment system in which transactions are settled **individually and in real time**, rather than being netted with other transactions.

Features:

- Primarily suitable for **large-value and urgent transactions**.
- Available **24×7×365**.
- RBI's minimum amount for RTGS transactions is **₹2 lakh**.
- There is no RBI-imposed upper ceiling, although banks may establish channel-specific limits.

Example:

A company needs to transfer ₹10 lakh urgently to another company's bank account. RTGS may be appropriate.

3. IMPS

IMPS — Immediate Payment Service

IMPS is an **instant interbank electronic funds-transfer service** operated by NPCI.

Features:

- Available **24×7**, including holidays.
- Provides near-instant fund transfers.
- Useful for urgent retail payments.
- Can be accessed through participating banks' digital channels.
- Applicable transaction limits depend on the channel and bank/NPCI rules.

Example:
A customer needs to immediately transfer money to another person's bank account late at night. IMPS can be used if both banks support it.

4. UPI

UPI — Unified Payments Interface
UPI is an instant payment system developed by **NPCI (National Payments Corporation of India)** that enables users to make payments directly between bank accounts through participating applications.

Features:

- Instant account-to-account payments.
- Available 24×7.
- Uses a **UPI ID, mobile number, QR code or other supported methods**.
- Widely used for person-to-person and merchant payments.
- Supports both small everyday payments and larger permitted transactions, subject to applicable limits.

Example:
A customer scans a shop's QR code and pays ₹500 directly from their bank account using UPI.

5. International Transfer

An **international transfer** is a transfer of money **from one country to another**.
It is different from NEFT, RTGS, IMPS and UPI in that it involves **cross-border movement of funds** and potentially different currencies.
International transfers may involve:

- Remitting bank
- Beneficiary bank
- Correspondent/intermediary banks
- Foreign-exchange conversion
- International payment messaging systems such as **SWIFT**
- Applicable foreign-exchange and regulatory requirements

Example — Import:
Indian Importer → Indian Bank → International Banking/Correspondent Network → Foreign Bank → Foreign Exporter
Example — Export:
Foreign Buyer → Foreign Bank → International Banking/Correspondent Network → Indian Bank → Indian Exporter

Key Difference

NEFT, RTGS, IMPS and UPI are primarily used for **domestic Indian payments**, whereas an **international transfer** involves sending or receiving funds across national borders.

NEFT = Routine domestic transfer
RTGS = Real-time high-value transfer
IMPS = Instant domestic transfer
UPI = Instant digital account-to-account payment
International transfer = Cross-border transfer

Module A: GENERAL BANKING
Chapter 3: Account Opening, On-Boarding Process, KYC Mechanism and Operations
3.1 Objectives
3.2 Introduction
3.3 Procedure for Opening an Account (including Aadhar based opening process)
3.4 Photographs of depositors
3.5 Specimen Signature
3.6 Nomination
3.7 Prevention of Money Laundering
3.8 RBI Guidelines in regard to AML/KYC
3.9 Closing an Account

Procedure for Opening a Bank Account

Opening a bank account involves **customer identification, KYC verification, submission of the account-opening application, verification by the bank, and activation of the account**. The exact procedure varies according to the type of account and the nature of the customer.

Under RBI's KYC framework, banks must undertake customer due diligence when establishing an account relationship. Current KYC procedures also allow mechanisms such as **CKYCR-based KYC retrieval, Aadhaar e-KYC, offline Aadhaar verification and Video-based Customer Identification Process (V-CIP)**, subject to the applicable conditions.

1. General Procedure for Opening a Bank Account

Step 1 — Select the type of account

The customer first chooses the appropriate account:

- Savings Account
- Current Account
- Fixed/Term Deposit Account
- Recurring Deposit Account
- Salary Account
- NRI Account
- Basic Savings Bank Deposit Account
- Minor's Account
- Joint Account
- Partnership/Company/Trust account
- Other specialized accounts

Step 2 — Obtain the Account Opening Form

The customer obtains an **Account Opening Form (AOF)** either:

- From a bank branch, or
- Through the bank's online/digital account-opening facility.

The customer provides details such as:

- Name
- Date of birth
- Address

- Mobile number
- Email
- PAN/Form 60, as applicable
- Occupation
- Source of funds/income, where required
- Nominee details
- Type of account
- Mode of operation

Step 3 — Submit KYC documents

For an individual, the bank generally obtains the required **Officially Valid Document (OVD)** or permitted equivalent electronic documentation containing identity and address information, together with PAN/Form 60 as applicable and other information required under the bank's KYC policy.

Examples of identity/address documents can include:

- Passport
- Driving license
- Voter identity card
- Aadhaar/proof of possession of Aadhaar through permitted processes
- NREGA job card
- Other documents recognized under the applicable KYC framework

Step 4 — KYC/CIP verification

The bank verifies:

Customer → Identity → Address → PAN/Form 60 → KYC/CKYCR → Risk assessment

The bank may conduct verification through:

- Face-to-face KYC
- Aadhaar authentication/e-KYC
- Offline Aadhaar verification
- CKYCR
- Digital KYC
- Video-based Customer Identification Process (V-CIP)

Step 5 — Photograph/signature and other verification

Depending on the account-opening method, the bank may capture or verify:

- Photograph
- Signature
- Mobile number
- PAN
- Identity/address information
- Biometric authentication, where applicable

Step 6 — Initial deposit

Where the particular account requires an initial deposit, the customer deposits the required amount.

Some accounts may have **zero or low minimum-balance requirements**, depending on the product.

Step 7 — Bank approval

The bank examines the application and KYC information.

If the requirements are satisfied, the bank approves the account.

Step 8 — Account activation

The customer receives the relevant account details, such as:

- Account number
- Passbook/e-statement facility
- Debit/ATM card, where applicable
- Cheque book, where applicable
- Internet banking
- Mobile banking
- UPI facility, where applicable

2. Aadhaar-Based Bank Account Opening

Aadhaar can be used for certain permitted KYC processes. **Aadhaar is not universally compulsory merely for opening every bank account**; its use is subject to the applicable legal and regulatory framework and the customer's consent where required. RBI permits banks to use Aadhaar authentication/e-KYC and other permitted Aadhaar verification methods. (Reserve Bank of India)

A. Aadhaar Biometric e-KYC

A simplified process is:

Customer gives consent → Aadhaar number → Biometric authentication → UIDAI verification → KYC information → Bank account opening

The process generally involves:

1. Customer approaches the bank/authorized banking channel.
2. Customer provides Aadhaar details and the required consent.
3. Bank/authorized representative initiates the e-KYC process.
4. Customer authenticates through the permitted biometric mechanism.
5. UIDAI authenticates the Aadhaar information.
6. The bank receives permitted KYC information electronically.
7. Bank completes the remaining account-opening requirements.
8. Account is opened if all applicable requirements are satisfied.

RBI's e-KYC framework describes the transmission of verified demographic information and photograph to the bank after successful Aadhaar authentication. (Reserve Bank of India)

3. Aadhaar OTP-Based e-KYC

Another digital route involves **OTP-based Aadhaar authentication**.

General process

Aadhaar details → OTP sent to registered mobile → Customer enters OTP → Authentication → KYC verification → Account opening

The customer:

1. Selects the bank's Aadhaar-based digital account-opening facility.
2. Enters the required Aadhaar details.
3. Gives the required consent for Aadhaar authentication.
4. Receives an OTP on the Aadhaar-registered mobile number.
5. Enters the OTP.
6. Bank completes the permitted e-KYC process.

7. PAN/Form 60 and other required information are obtained as applicable.
8. The account is opened subject to the applicable regulatory and bank requirements.

Important: RBI places specific conditions on accounts opened using Aadhaar OTP-based e-KYC in non-face-to-face mode, so such accounts should not be treated as identical to a fully KYC-completed account in every respect. (Reserve Bank of India)

4. Video KYC / V-CIP Account Opening

V-CIP = Video-based Customer Identification Process.

This permits customer identification through a **live, secure video interaction with the bank**.

Process

Online application → PAN/identity information → Live video interaction → Photograph/liveness verification → KYC verification → Account activation

The bank official may:

1. Initiate the live video interaction.
2. Verify the customer's identity.
3. Capture the customer's photograph.
4. Verify PAN and permitted identity information.
5. Conduct liveness checks.
6. Capture the required location and other information.
7. Complete KYC verification.
8. Open the account after satisfying the applicable requirements.

RBI permits banks to use V-CIP as a consent-based method for establishing an account relationship and prescribes requirements concerning live interaction, security, verification and record keeping. (Reserve Bank of India)

5. Account Opening Through CKYCR

CKYCR = Central KYC Records Registry.

Where a customer's KYC records are already available, the bank may, with the customer's consent and subject to the applicable rules, retrieve the KYC information from CKYCR rather than requiring the customer to repeatedly submit the same records, unless the existing information needs updating or other requirements apply.

Process

Customer provides KYC Identifier → Bank retrieves KYC records → Customer information verified → Account opened

This reduces duplication of KYC documentation.

6. Procedure for Different Types of Accounts

A. Savings Account

Customer → Application → KYC → Verification → Initial deposit if applicable → Account activation

Normally used by individuals for savings and everyday banking.

B. Current Account

A current account is generally opened for businesses and organizations.

Additional information may be required concerning:

- Nature of business

- Business address
- PAN
- Registration documents
- Constitution of the entity
- Beneficial ownership
- Authorized signatories
- Business/financial information as required by the bank

For companies, banks may require corporate documents and evidence of authority to open and operate the account. (Reserve Bank of India)

C. Fixed/Term Deposit

The customer:

1. Has or opens an eligible bank account, as required by the bank.
2. Submits the term-deposit application.
3. Specifies the deposit amount and tenure.
4. Selects applicable interest/maturity instructions.
5. Transfers/deposits the amount.
6. Receives the term-deposit confirmation/receipt.

D. Recurring Deposit

The customer:

1. Completes the RD application.
2. Selects the tenure and periodic instalment.
3. Completes KYC.
4. Makes the first instalment.
5. Authorizes subsequent periodic payments where applicable.
6. Receives maturity proceeds according to the deposit terms.

7. Joint Account

A joint account is opened in the names of **two or more persons**.
Each account holder generally undergoes the applicable KYC process.
The applicants specify the operating mandate, such as:

- Jointly
- Either or Survivor
- Former or Survivor
- Anyone or Survivor
- Other permitted mandates

The exact options depend on the bank and account type.

8. Minor's Account

A minor's account involves additional requirements concerning:

- Minor's identity
- Date of birth
- Parent/guardian details
- Guardian's KYC

- Mode of operation

The precise operating rules depend on the minor's age and the bank's product terms.

9. Account of a Sole Proprietorship

The bank generally obtains:

- Proprietor's KYC
- PAN
- Proof of business/proprietorship
- Business address
- Nature of business
- Other documents required under the bank's KYC policy

The proprietor and the business are closely connected for KYC purposes.

10. Partnership Firm

A partnership account generally requires:

- Partnership deed
- PAN of the firm
- Registration details, where applicable
- Firm's address
- KYC of partners/authorized persons
- Authority to operate the account
- Beneficial-owner information, where applicable

11. Company Account

A company normally provides documents such as:

- Certificate of Incorporation
- PAN
- Memorandum and Articles, where applicable
- Registered/principal office details
- Board resolution/authorization
- Details and KYC of authorized signatories
- Beneficial ownership information
- Other documents required by the bank

RBI's KYC framework requires banks to establish the identity of the legal entity and persons acting on its behalf and to obtain information appropriate to the nature of the entity. (Reserve Bank of India)

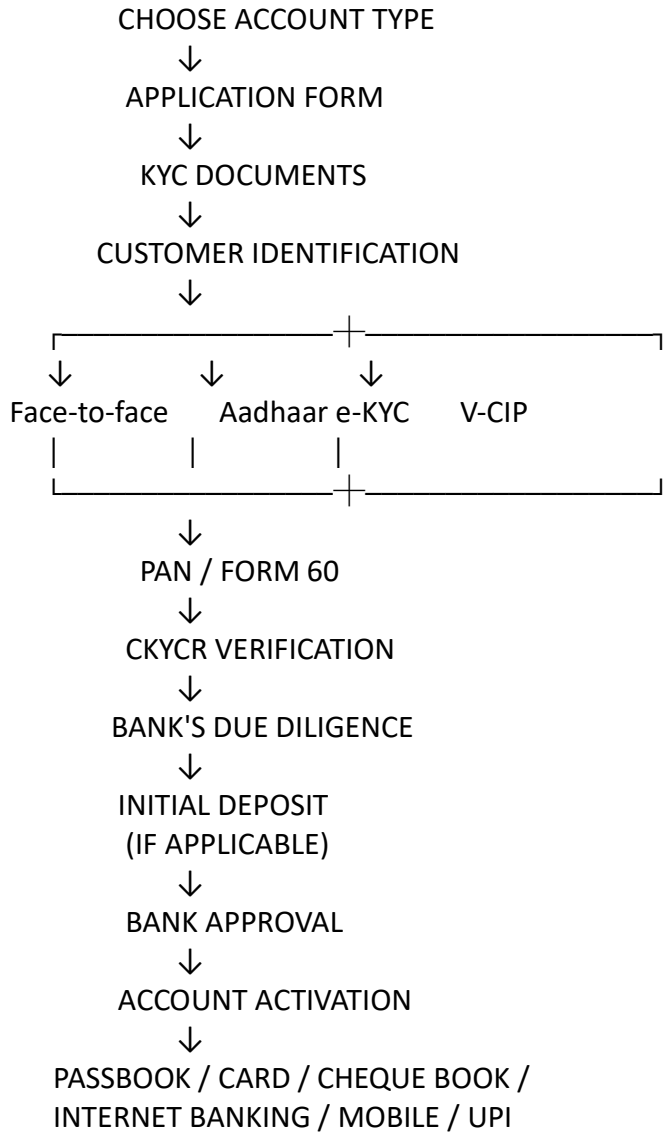
12. Trust/Society/Association Account

The bank generally verifies:

- Registration documents
- Trust deed/by-laws/constitutional documents
- PAN
- Address
- Authorized persons
- Resolution/authority to operate the account
- Beneficial ownership/control information where applicable

- KYC of relevant persons

Complete Account-Opening Flow



Key Point for Examinations

The basic procedure for opening a bank account consists of selecting the account type, filling the account-opening form, submitting the prescribed KYC information and documents, completing customer identification and verification, making the required initial deposit, obtaining bank approval and activating the account. Modern account opening may additionally use CKYCR, Aadhaar e-KYC, offline Aadhaar verification, digital KYC and Video-based Customer Identification Process (V-CIP).

Photographs of Depositors / Customers in Banks

A **photograph of the depositor/customer** is an important part of customer identification and KYC procedures when opening and maintaining a bank account. The photograph helps the bank establish and verify the identity of the person associated with the account.

Basic Requirements

The photograph requirement generally includes the following:

1. **Recent photograph**
    - The photograph should normally be recent and clearly show the customer's face.
    - It should permit the bank to identify the customer.
2. **Clear and identifiable**
    - The face should be clearly visible.
    - The photograph should not be excessively blurred, damaged or otherwise unsuitable for identification.
3. **Individual account holders**
    - A photograph is generally obtained for individual customers as part of the bank's customer identification/KYC process.
4. **Joint accounts**
    - Photographs are generally obtained for **each individual joint account holder**, subject to the applicable KYC process.
5. **Minor accounts**
    - The bank may require the photograph of the **minor** and the parent/guardian, as applicable to the account-opening procedure.
6. **Non-individual customers**
    - For companies, firms, trusts, societies and other legal entities, the bank identifies the **authorized persons/signatories and relevant individuals** according to the applicable KYC requirements.
    - The entity itself does not have a "photograph" in the same sense as an individual customer.
7. **Digital account opening**
    - In digital or Video-based Customer Identification Process (**V-CIP**), the customer's photograph/image may be captured electronically as part of the identification process rather than supplied as a physical passport-style photograph.
8. **Photograph and KYC are different**
    - A photograph **alone does not constitute complete KYC**.
    - The bank must also obtain and verify the other information/documents required under the applicable KYC framework.

Where the Photograph May Be Used

The photograph may form part of the customer's:

- Account-opening records
- KYC/customer identification records
- Bank's customer database
- Digital KYC records
- Identification/verification process
- Records associated with the account

Basic Account-Opening Checklist

Requirement	Purpose
Customer photograph	Visual identification
Identity information/document	Establish identity
Address information/document	Establish address
PAN/Form 60, as applicable	Tax/KYC compliance
Mobile/contact details	Communication and authentication
Signature/other authentication	Account operation
Nomination details	Facilitate settlement on death, where applicable
Customer due diligence	Assess and manage KYC/AML risks

Important Point

Banks today may not always require the customer to submit a **physical photograph**. In digital onboarding, the bank can capture the customer's image electronically through permitted procedures such as **V-CIP**, while Aadhaar e-KYC may also provide a photograph as part of the permitted KYC information.

In simple terms:

The customer's photograph is an identification aid within the KYC process. It must be clear and linked to the verified customer, but it is only one component of the bank's overall KYC requirements.

If a **photograph does not match but biometric authentication matches**, the situation should be handled as a **KYC/identity-verification exception**, not automatically as proof of fraud or wrongdoing.

If the biometric matches perfectly

A biometric match can be strong evidence that the biometric presented corresponds to the enrolled identity. However, the bank should still determine **why the photograph is different**.

Common legitimate reasons include:

- The photograph is **old** and the person's appearance has changed.
- Different photographs were captured at different ages.
- The image quality, lighting, camera angle or resolution differs.
- Facial appearance has changed because of hairstyle, beard, spectacles, weight change, ageing, etc.
- The photograph belongs to an older KYC record.
- There has been a legitimate update/replacement of the identity document.
- The bank's records contain an outdated or incorrectly uploaded photograph.

Recommended procedure

1. Do not rely on the photograph alone.

Compare the complete KYC information, including name, date of birth, address, identity-document details and other available records.

2. Verify the biometric result.

Confirm that the biometric authentication was performed through the authorized system and that the result is genuinely successful—not merely that a device displayed a match.

3. Check the source and date of the photograph.

Determine when and from which document/system the photograph was obtained.

4. Ask the customer for an explanation.

If the photograph is old, the customer can provide the relevant updated identity document or request a KYC/profile update.

5. Escalate genuine inconsistencies.
If there are unexplained discrepancies—for example, the biometric is associated with one identity but the documentary information or account history indicates another person—the bank should conduct enhanced verification and follow its KYC/AML and fraud procedures.
6. Preserve records.
The bank should retain the relevant authentication result, documents and verification trail according to its record-retention requirements.

Particularly important for Aadhaar-based verification

A successful **Aadhaar authentication** does not mean that every photograph shown elsewhere must necessarily look identical. Aadhaar authentication is primarily an authentication mechanism using the credentials submitted through the authorized process. A photograph appearing different can therefore require investigation without automatically invalidating the authentication result.
Simple decision framework

Situation	Appropriate response
Photo old/different appearance + biometric successfully authenticated	**Update/refresh KYC as appropriate**
Poor-quality or different-source photograph	**Conduct additional visual/document verification**
Photo mismatch explained by legitimate change	**Record explanation and update records if required**
Biometric successful but other KYC information conflicts	**Enhanced verification**
Evidence suggests impersonation/account misuse	**Follow bank's fraud/KYC escalation procedure**

Key principle:
A photograph mismatch should be investigated in context. A successful biometric match is significant evidence, but it should be considered together with the bank's complete KYC and customer-identification records rather than treated as the sole determinant of identity.
If this concerns an **Indian bank/Aadhaar KYC dispute**, I can also explain the **formal complaint and escalation procedure when the bank refuses to recognize the customer despite successful biometric authentication**.

Specimen Signature in Banks

Meaning
A **specimen signature** is the signature recorded by a bank as a reference for verifying the identity and authority of a customer or authorized signatory when the person gives instructions to operate an account.
It is particularly important for **cheques, withdrawal forms, payment instructions, mandates, and other transactions requiring a signature**.
The specimen signature is normally captured when the account is opened or when an authorized person is added/changed.

Need for a Specimen Signature

The specimen signature serves several important purposes:

1. Verification of the customer

The bank compares the signature on a transaction document with the specimen signature recorded in its records.

2. Prevention of unauthorized transactions

It helps the bank detect potentially unauthorized or fraudulent instructions.

3. Payment of cheques

For cheque-based transactions, the bank uses the recorded signature as one of the means of verifying the drawer's authority.

4. Verification of authorized signatories

For companies, firms, trusts and other organizations, specimen signatures help establish who is authorized to operate the account.

5. Establishing authority

The signature may evidence the customer's or authorized signatory's approval of a particular instruction, subject to the applicable banking process.

6. Handling mandates

Where an account has multiple holders or an authorized mandate, specimen signatures help the bank determine whether the instruction has been properly given.

7. Fraud detection

Signatures that materially differ from the bank's records may trigger additional verification or scrutiny.

Types of Signatures Used in Banks

There is no single universal classification, but signatures used in banking can be grouped as follows.

1. Specimen Signature

The **reference signature** provided to and retained by the bank.

Purpose:

Used for comparison with signatures subsequently presented on eligible transactions.

2. Customer's Signature

The signature of an individual account holder.

It may be used for:

- Cheques
- Withdrawal forms
- Account-opening documents
- Certain service requests
- Other permitted instructions

3. Joint Account Signatures

In a joint account, the required combination of signatures depends on the **mode of operation**.

For example:

- **Jointly** — all specified account holders may need to sign.
- **Either or Survivor** — either account holder may generally operate the account during the lifetime of both, subject to the account mandate.

- **Former or Survivor** — the former holder operates the account during their lifetime, with the survivor's rights arising according to the mandate.

The exact operation depends on the account mandate and bank rules.

4. Authorized Signatory's Signature

A person authorized to operate an account on behalf of a:

- Company
- Partnership
- Trust
- Society
- Association
- Other organization

provides their specimen signature to the bank.

Example:

A company may authorize its Managing Director and Finance Manager to operate its current account.

5. Mandated / Power-of-Attorney Signature

A person may be authorized to operate an account on behalf of another person through a valid **mandate or power of attorney**, subject to the bank's requirements.

The authorized person's signature is recorded for the permitted operations.

6. Guardian's Signature

For certain **minor accounts**, a parent or legally recognized guardian may operate the account according to the applicable account terms.

The guardian's signature may therefore be recorded by the bank.

7. Thumb Impression / Alternative Authentication

Where a customer is unable to sign, the bank may use an **alternative form of authentication**, such as a thumb impression, together with the bank's prescribed identification and verification procedures.

This should not be confused with a conventional handwritten specimen signature.

8. Digital / Electronic Signature

Modern banking increasingly uses electronic authentication mechanisms.

Examples include:

- Digital signatures
- Electronic signatures
- OTP-based authentication
- Biometric authentication
- Device/app authentication
- Other approved electronic authentication mechanisms

These may authenticate a customer without requiring a handwritten signature for every transaction.

Classification by Form

Type	Description
Handwritten signature	Traditional signature written by the customer
Specimen signature	Reference signature retained by the bank
Joint signature	Signature required according to joint-account mandate
Authorized signature	Signature of an authorized representative
Mandated signature	Signature of a person authorized under a mandate/POA
Thumb impression	Alternative authentication was permitted
Digital/electronic signature	Electronic method of authenticating/signing

Signature Verification Process

A simplified banking process is:

Customer's transaction/instruction

↓

Signature presented

↓

Bank retrieves recorded specimen/signature information

↓

Signature and authority are checked

↓

Other applicable checks are performed

↓

Transaction accepted / referred for further verification

Important Point

A bank **does not determine identity solely by visually comparing signatures**. Modern banking uses multiple authentication and fraud-control mechanisms, and the precise checks depend on the transaction and channel. For digital transactions, **PINs, passwords, OTPs, biometrics, device authentication and other controls** may be more relevant than a handwritten signature.

Specimen Signature vs. Signature on a Cheque

Specimen Signature	Transaction Signature
Kept as a reference by the bank	Given on a particular transaction
Usually collected during account opening or mandate changes	Given when the customer issues/signs an instrument or instruction
Used for verification	Subject to verification against the bank's records
Remains in bank records until appropriately updated	Applies to the particular transaction

In Simple Terms

Specimen signature = the bank's reference signature.

Transaction signature = the signature given on a particular banking transaction.

The main purpose of the specimen signature is **to help the bank verify the authenticity and authority of signed instructions and reduce the risk of unauthorized transactions**.

Nomination for a Bank Account

Meaning

Nomination is a facility through which a bank depositor designates an **individual nominee** to whom the bank may pay the balance of the deposit, or deal with the relevant deposit, after the death of the depositor, subject to the applicable law and banking procedure.

For Indian banks, nomination facilities are governed principally by the **Banking Regulation Act, 1949**, the **Banking Companies (Nomination) Rules, 1985**, and RBI directions. RBI requires banks to make nomination facilities available for deposit accounts. (Reserve Bank of India)

1. Why is Nomination Important?

Nomination helps to:

- Facilitate **speedy settlement of a deceased depositor's account**.
- Identify the person to whom the bank can release the deposit according to the applicable procedure.
- Reduce difficulties for the deceased customer's family.
- Reduce the need for extensive documentation in appropriate cases.
- Help the bank obtain a valid discharge of its liability when payment is made to the nominee in accordance with the applicable rules.
- Provide a clear record of the depositor's nomination choice.

Important: A nominee should not automatically be understood as the ultimate owner of the money for succession-law purposes. Nomination primarily facilitates the bank's settlement/payment process; questions of beneficial ownership or inheritance can depend on applicable succession law.

2. Types of Nomination

For **bank deposit accounts**, the important types can be classified as follows.

A. Single Nomination

One individual is nominated by the depositor.

Example:

Depositor: A

Nominee: B

The nominee becomes entitled to receive the deposit from the bank after the depositor's death, subject to the applicable procedure.

Under the traditional Banking Companies (Nomination) Rules, a deposit nomination is made in favour of an **individual**. (Reserve Bank of India)

B. Nomination in a Joint Account

Nomination is also available for **joint deposit accounts**.

A particularly important rule is that, under the traditional framework, there can be **one nominee for a joint deposit account**, and the nominee's right arises after the death of all the depositors. (Reserve Bank of India)

This should be distinguished from the **survivorship mandate** of the joint account, such as "Either or Survivor."

C. Nomination in a Minor's Name

A **minor can be nominated**.

Where the nominee is a minor, the depositor may appoint an **adult person to receive the amount on behalf of the minor** during the minor's period of minority. (Reserve Bank of India)

D. Nomination for Different Deposit Accounts

Nomination can be provided for different types of deposit accounts, including:

- Savings accounts
- Current accounts
- Fixed/term deposits
- Recurring deposits
- Other eligible deposit accounts

RBI's instructions state that nomination facilities should be available for **all types of deposit accounts**, irrespective of the nomenclature used by the bank. (Reserve Bank of India)

3. Who Can Be a Nominee?

The nominee must generally be an **individual**.

Therefore, under the traditional Banking Companies (Nomination) Rules:

- A person can be nominated.
- A minor can be nominated, with an appropriate adult receiving arrangement.
- An organization, association, trust or society cannot be nominated as the nominee under these rules. (Reserve Bank of India)

4. Procedure for Making a Nomination

Step 1 — Decide to nominate

The depositor chooses an individual to be the nominee.

Step 2 — Obtain the nomination form

The customer can make the nomination through the prescribed nomination facility/form provided by the bank. Banks may also provide a nomination section in the **account-opening form**. (Reserve Bank of India)

Step 3 — Provide nominee details

The required information generally includes details such as:

- Name of nominee
- Address
- Relationship, where requested
- Age/date of birth, where relevant
- Other identifying particulars required by the bank

Step 4 — Sign the nomination

The depositor(s) complete and sign the nomination according to the applicable requirements.

Step 5 — Bank registers the nomination

The bank records the nomination in its records.

RBI requires banks to **register nominations and cancellations/variations** in their books. (Reserve Bank of India)

Step 6 — Obtain acknowledgement

The customer should receive acknowledgement/confirmation that the nomination has been registered.

Step 7 — Record in account documents

Banks may indicate that **"Nomination Registered"** on the passbook, statement, term-deposit receipt or other relevant document. RBI has also advised that the nominee's name may be shown where the customer agrees. (Reserve Bank of India)

5. Cancellation or Change of Nomination

A depositor does not have to keep the same nominee permanently.

The nomination may generally be:
Made → Changed/Varied → Cancelled → Replaced
For example:
Nominee A → Cancel nomination → Nominee B
For a joint account, cancellation or variation generally requires the action of the **surviving depositor(s) acting together**, subject to the applicable rules. (Reserve Bank of India)

6. What Happens When the Depositor Dies?
A simplified process is:
Death of depositor
↓
Nominee approaches bank
↓
Bank verifies death and nominee's identity
↓
Required documents/procedure completed
↓
Bank settles the deposit according to the applicable nomination rules
↓
Payment/release to nominee
Where there is a valid nomination, payment to the nominee in accordance with the applicable requirements can provide the bank with a valid discharge of its liability. (Reserve Bank of India)

7. Is Nomination Mandatory?
No — nomination is not mandatory in the sense that a bank cannot refuse to open an otherwise eligible account solely because the customer declines to nominate.
This is an important distinction.
RBI's instructions have historically stated that banks should **generally insist on nomination** and explain its advantages. However, **if the customer does not want to nominate, the customer can decline**. The bank should record the customer's decision appropriately.
Most importantly, RBI has expressly stated that:
A bank should not refuse to open an account solely because the customer refuses to make a nomination. (Reserve Bank of India)
Therefore:

Question	**Answer**
Is nomination compulsory by law for every bank customer?	**No**
Can the customer choose not to nominate?	**Yes**
Can the bank make nomination available?	**Yes — it must provide the facility where applicable**
Can a bank refuse an otherwise eligible account solely because the customer refuses nomination?	**No**
Is nomination recommended?	**Yes**

Question	Answer
Can the customer change/cancel a nomination?	**Generally, yes, according to the applicable procedure**

Very important distinction

"Nomination should be a rule" in RBI's older operational instructions does **not mean that nomination is legally compulsory for the customer**. It means banks should actively promote and obtain nominations unless the customer chooses not to make one. RBI's instructions specifically preserve the customer's choice not to nominate. (Reserve Bank of India)

8. Nomination vs. Joint Account Survivorship

These are **different concepts**.

Nomination

Depositor → Nominee

It operates principally on the death of the depositor and facilitates settlement by the bank.

Survivorship Clause

Joint Account Holder A + Joint Account Holder B → Surviving Account Holder

Examples include:

- Either or Survivor
- Former or Survivor
- Anyone or Survivor
- Latter or Survivor

RBI has specifically clarified that nomination is available even for joint accounts and should not be confused with the survivorship mandate. (Reserve Bank of India)

9. Nomination and Legal Heirs

Another important distinction:

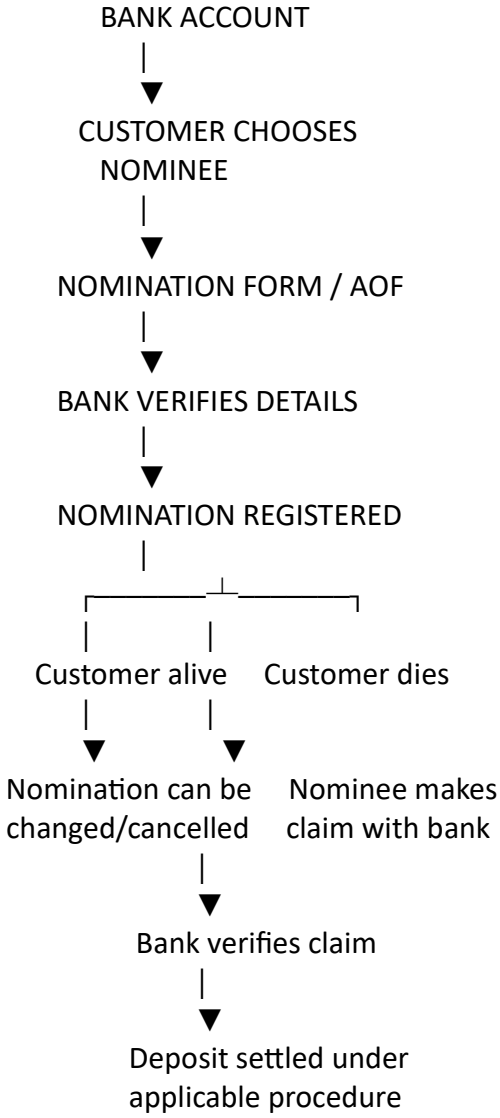
Nominee ≠ automatically the ultimate beneficiary/heir.

The bank's payment to a valid nominee is intended to facilitate settlement and discharge the bank's liability under the applicable framework. The question of **who ultimately owns or inherits the money** can be governed by succession law, a will, or other applicable legal principles.

Therefore:

Nomination is primarily a banking settlement mechanism; succession/inheritance is a separate legal question.

10. Complete Flow



Exam-ready definition

Nomination is a banking facility under which a depositor designates an individual to whom the bank may pay or release the deposit after the depositor's death, subject to the applicable law and banking procedure. Nomination is highly advisable but is not compulsory merely as a condition for opening an otherwise eligible bank account; a customer has the choice to decline it.

Note on recent law: The legal framework for bank-deposit nominations has been subject to recent legislative changes, so for a current legal assignment or examination answer, the applicable **2025–26 provisions and RBI implementation directions** should be checked rather than relying solely on older descriptions of the Banking Companies (Nomination) Rules.

Prevention of Money Laundering by Banks

1. Meaning of Money Laundering

Money laundering is the process of making **illegally obtained money or assets appear to have come from a legitimate source**.

It is commonly explained through three stages:

Placement → Layering → Integration

- **Placement:** Introducing proceeds of crime into the financial system.
- **Layering:** Conducting multiple transactions to conceal the origin of the funds.
- **Integration:** Reintroducing the money into the legitimate economy so that it appears lawful.

Banks are particularly important in preventing money laundering because they are a major entry point into the financial system.

2. Legal Framework in India

The principal legislation is the **Prevention of Money Laundering Act, 2002 (PMLA)**.

Banks also follow the **Prevention of Money-laundering (Maintenance of Records) Rules, 2005**, together with RBI's **Master Direction – Know Your Customer (KYC) Direction, 2016**, as amended from time to time.

The framework involves:

Parliament/Government → PMLA & Rules

RBI → KYC/regulated-entity requirements

FIU-IND → Financial intelligence and suspicious transaction reporting

3. Role of Banks in Prevention of Money Laundering

Banks are required to establish procedures to **identify customers, understand their transactions, monitor accounts, identify suspicious activity and report prescribed information to the authorities**.

The major measures are:

1. Know Your Customer (KYC)

Banks must identify and verify their customers.

KYC generally involves obtaining and verifying:

- Identity
- Address
- PAN/Form 60, as applicable
- Nature of business/occupation
- Purpose and intended nature of the banking relationship
- Other information required under the applicable KYC framework

KYC helps prevent criminals from opening and operating accounts using false or fictitious identities.

2. Customer Due Diligence (CDD)

Customer Due Diligence means understanding who the customer is and assessing the risks associated with the customer and the banking relationship.

Banks consider factors such as:

- Customer profile
- Nature of business
- Expected transaction pattern
- Source of funds, where required
- Geographic factors

- Products/services being used
- Risk associated with the relationship

3. Beneficial Owner Identification

For accounts involving companies, partnerships, trusts and other legal entities, banks must identify the relevant **beneficial owner(s)** in accordance with the applicable KYC requirements.

This prevents criminals from hiding behind:

- Shell companies
- Complex ownership structures
- Nominee arrangements
- Front persons

4. Risk-Based Customer Classification

Banks generally classify customers according to their **money-laundering and terrorist-financing risk**.

A simplified model is:

Low Risk → Medium Risk → High Risk

Higher-risk relationships require **enhanced due diligence and closer monitoring**.

5. Transaction Monitoring

Banks monitor transactions to identify activity that is inconsistent with the customer's known profile.

Examples of potentially suspicious patterns include:

- Unusually large transactions
- Rapid movement of funds through several accounts
- Transactions with no apparent economic purpose
- Unusual cash deposits or withdrawals
- Sudden changes in transaction patterns
- Multiple transactions structured to avoid reporting requirements
- Unusual cross-border transactions

Important: A transaction being large, unusual or cash-based does **not automatically mean that money laundering has occurred**. Banks assess the circumstances and the customer's profile before determining whether activity is suspicious.

6. Record Keeping

Banks are required to maintain prescribed records relating to customers and transactions for the periods specified under the applicable PMLA/KYC framework.

Records help authorities:

- Trace money flows
- Identify persons involved
- Reconstruct transactions
- Investigate financial crimes

7. Suspicious Transaction Reporting

Banks are required to report **suspicious transactions** to the **Financial Intelligence Unit–India (FIU-IND)** in accordance with the applicable legal requirements.

A **Suspicious Transaction Report (STR)** is not a declaration that the customer has committed a crime. It is a report of activity that gives the regulated entity reasonable grounds for suspicion under the applicable framework.

8. Cash Transaction Reporting
Banks are also required to report specified categories of **cash transactions** to FIU-IND as prescribed by law.
This creates a system through which unusually large or structured cash activity can be identified and analysed.

9. Enhanced Due Diligence
For higher-risk customers or transactions, banks may conduct additional checks.
These can include:

- Obtaining additional information
- Establishing the source of funds/wealth where required
- Examining the purpose of transactions
- Increasing transaction monitoring
- Obtaining senior-management approval where prescribed

10. Monitoring of International Transactions
Banks pay particular attention to cross-border transactions because money laundering can involve movement of funds between jurisdictions.
They may examine:

- Origin and destination of funds
- Customer profile
- Purpose of remittance
- Countries/jurisdictions involved
- Correspondent banking relationships
- Sanctions and other applicable screening requirements

11. Sanctions and Prohibited Persons Screening
Banks screen customers and transactions against applicable:

- Sanctions lists
- Terrorist financing lists
- Prohibited/restricted persons or entities
- Regulatory requirements

This helps prevent the banking system from being used to finance terrorism or other prohibited activities.

12. Employee Training
Banks train employees to recognize:

- Suspicious transactions
- Identity fraud
- Fictitious accounts
- Structuring/smurfing
- Unusual cash activity
- Suspicious remittances
- Other indicators of financial crime

Employees are expected to follow the bank's internal AML/KYC procedures.

4. Three Lines of Defense

Banks commonly use a layered approach to AML controls:

First Line — Business/Operations

Customer-facing staff perform initial KYC and transaction-level controls.

Second Line — Compliance/Risk

Compliance teams establish policies, monitor risk and investigate alerts.

Third Line — Internal Audit

Internal audit independently examines whether AML controls are operating effectively.

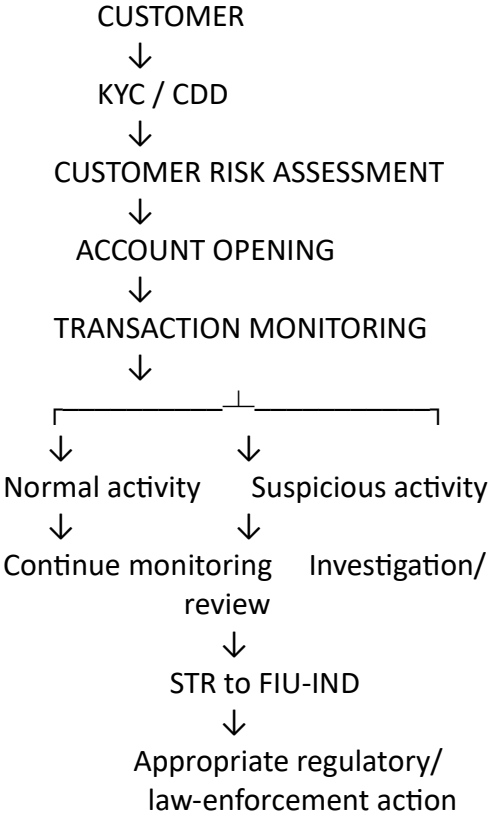
5. Role of Technology

Modern banks increasingly use technology for:

- Automated transaction monitoring
- Customer risk scoring
- Identity verification
- Biometric authentication
- Fraud detection
- Sanctions screening
- Pattern recognition
- Artificial intelligence and machine learning

Technology helps identify complex transaction patterns that may not be apparent through manual review.

6. Money Laundering Prevention Process



7. Important AML Measures at a Glance

Measure	Purpose
KYC	Establish customer identity
CDD	Understand customer and risk
Beneficial-owner identification	Identify the real controlling/owning person
Risk classification	Apply appropriate controls
Transaction monitoring	Detect unusual activity
Record keeping	Preserve transaction/customer trail
STR reporting	Report suspected money laundering activity
Cash transaction reporting	Report prescribed cash transactions
Enhanced due diligence	Manage higher-risk relationships
Sanctions screening	Prevent prohibited transactions
Employee training	Improve detection and compliance
Internal audit	Test AML control effectiveness

In Simple Terms

Banks prevent money laundering by knowing their customers, verifying their identities, identifying beneficial owners, assessing risk, monitoring transactions, maintaining records, reporting suspicious/prescribed transactions to the competent authorities, and maintaining effective internal AML controls.

Important distinction

KYC ≠ AML

KYC primarily establishes and verifies **who the customer is** and supports understanding of the relationship.

AML is broader: it includes **KYC/CDD + transaction monitoring + record keeping + reporting + risk management + internal controls** to prevent the banking system from being misused for money laundering and related financial crimes.

Types of Money Laundering with Examples

Money laundering is the process of disguising the illegal origin of **proceeds of crime** so that they appear to be legitimate. It is commonly explained through three principal stages—**placement, layering and integration**—but there are also several methods or forms through which laundering can occur.

1. Placement

Meaning:

Placement is the **introduction of proceeds of crime into the financial or economic system**.

Example:

A person obtains ₹20 lakh from illegal activity and deposits portions of the money into different bank accounts rather than keeping the cash.

Purpose: To move illegal funds away from their original source.

2. Layering

Meaning:

Layering involves conducting **multiple transactions to make it difficult to trace the original source of the money**.

Example:
Illicit funds are moved through several bank accounts, companies and transactions, possibly involving different jurisdictions, making the transaction trail complicated.
Purpose: To conceal the origin and ownership of the funds.

3. Integration
Meaning:
Integration occurs when the laundered money is **reintroduced into the legitimate economy and appears to have a lawful origin**.
Example:
After passing through various transactions, illicit funds are used to purchase a legitimate business or property, with the resulting income presented as legitimate business income.
Purpose: To make criminal proceeds appear legitimate.

Other Common Forms/Methods
4. Structuring or Smurfing
Meaning:
A large amount of money is divided into **many smaller transactions** to avoid detection or applicable reporting requirements.
Example:
Instead of depositing ₹10 lakh in one transaction, an individual makes numerous smaller deposits through different accounts or persons.
Banking concern: Unusual patterns of apparently connected transactions may trigger monitoring.

5. Use of Shell Companies
Meaning:
A **shell company** may be used to obscure the ownership, control or movement of funds.
Example:
Illegal proceeds are transferred to a company with little or no genuine business activity and subsequently moved through other entities.

6. Trade-Based Money Laundering
Meaning:
Criminal proceeds are moved or disguised through **international trade transactions**.
Example:
A business deliberately misrepresents the value, quantity or description of goods in an import/export transaction to facilitate movement of illicit funds.
This is particularly relevant to **international banking and trade finance**.

7. Real Estate Laundering
Meaning:
Illicit funds are used to acquire or deal in **property**, with the transaction subsequently used to give the money an apparently legitimate origin.

Example:
Criminal proceeds are used to purchase property, and later the property is sold with the proceeds presented as legitimate investment income.

8. Use of Front Businesses
Meaning:
A genuine-looking business is used to mix **legitimate revenue with illicit funds**.
Example:
An otherwise legitimate business is used to introduce unexplained funds into its accounts and represent them as business receipts.

9. Loan-Back / Loan-Repayment Method
Meaning:
Illicit funds may be disguised as a **loan transaction**.
Example:
Money is transferred through an apparently legitimate loan arrangement and later returned as a purported loan repayment.

10. Use of Nominees or Intermediaries
Meaning:
Another person may be used to **hold or move assets or money**, concealing the actual person who controls or benefits from them.
Example:
A person places assets in another individual's name while continuing to control or benefit from them.

11. Gambling-Related Laundering
Meaning:
Illicit funds may be introduced into gambling activities and later withdrawn in a form that appears to represent legitimate winnings.
Example:
A person uses illicit money for gambling and subsequently presents the resulting funds as gambling proceeds.

12. Digital/Cryptocurrency-Based Laundering
Meaning:
Virtual/digital assets can potentially be used to move or obscure illicit funds through complex transactions.
Example:
Illicit funds are converted into digital assets and transferred through multiple wallets or platforms in an attempt to obscure their origin.
Important: Digital assets themselves are not inherently money laundering; the issue is their use to conceal or transfer proceeds of crime.

Summary Table

Type/Method	Basic Idea	Example
Placement	Enter illegal money into financial system	Depositing criminal proceeds
Layering	Complicate transaction trail	Moving funds through multiple accounts
Integration	Make funds appear legitimate	Investing proceeds in a legitimate business
Smurfing	Split large transactions	Multiple smaller deposits
Shell companies	Hide ownership/source	Moving funds through inactive companies
Trade-based laundering	Use trade transactions	Misrepresenting import/export values
Real estate	Use property transactions	Buying and later selling property
Front business	Mix illicit and legitimate funds	Showing illicit funds as business revenue
Loan-back	Disguise funds as loans	Artificial loan and repayment
Nominees/intermediaries	Hide actual controller	Assets held in another person's name
Gambling	Disguise funds as winnings	Converting illicit funds into apparent winnings
Digital assets	Obscure movement through digital assets	Transfers across multiple wallets

Easy way to remember the three stages
PLACEMENT → LAYERING → INTEGRATION
Placement: Put the illegal money into the system.
Layering: Hide where it came from.
Integration: Make it look legitimate.
For banking examinations: the most important classification is **Placement, Layering and Integration**. The other items are better described as **methods/techniques of money laundering**, rather than separate legal categories of the offence.

How Banks Check and Prevent Money Laundering
Banks prevent money laundering through a combination of **KYC, customer due diligence, risk assessment, transaction monitoring, record keeping, reporting, sanctions screening and internal controls**.

In India, the principal framework is based on the **Prevention of Money Laundering Act, 2002 (PMLA)**, the **Prevention of Money-laundering (Maintenance of Records) Rules, 2005**, and RBI's **KYC Directions**.

1. Customer Identification — KYC

Before establishing a banking relationship, the bank verifies the customer's identity.

The bank checks:

- Name and identity
- Address
- Date of birth/incorporation
- PAN/Form 60, where applicable
- Officially Valid Documents
- Nature of occupation/business
- Purpose and expected nature of the account

Objective: Prevent fictitious, anonymous or falsely identified persons from using the banking system.

2. Customer Due Diligence (CDD)

The bank tries to understand:

Who is the customer? What does the customer do? Why does the customer need the account? What type of transactions should reasonably be expected?

The bank establishes a customer profile based on available information.

For example, if a small business normally receives ₹2–3 lakh per month but suddenly receives several very large unexplained transfers, the transactions may require review.

3. Identify the Beneficial Owner

For companies, partnerships, trusts and other legal entities, the bank identifies the **natural person(s) who ultimately own or control the entity**, as required under the applicable KYC framework.

This helps prevent criminals from hiding behind:

- Shell companies
- Front companies
- Complex ownership structures
- Nominees or intermediaries

4. Risk-Based Customer Classification

Banks assess customers according to their money-laundering and terrorist-financing risk.

A simplified classification is:

Low Risk → Medium Risk → High Risk

Higher-risk relationships receive **enhanced due diligence and closer monitoring**.

Risk can depend on factors such as:

- Customer type
- Business activity
- Geographic exposure
- Products/services used
- Transaction behaviour
- Ownership structure
- Nature of expected transactions

5. Transaction Monitoring
This is one of the most important controls.
Banks use automated systems and manual review to identify **unusual or suspicious patterns**.
They may look for:

- Unusually large transactions
- Unexpected cash deposits
- Rapid movement of money
- Multiple transfers between apparently connected accounts
- Transactions inconsistent with the customer's profile
- Unusual international transfers
- Sudden changes in account activity
- Possible structuring/smurfing
- Transactions without an apparent legitimate economic purpose

Example
A newly opened account shows:
₹50,000 → ₹4 lakh → ₹8 lakh → ₹12 lakh → immediate transfers to several unrelated accounts
If this activity is inconsistent with the customer's known profile, the bank may generate an alert and investigate.
Important: An unusual transaction is **not automatically money laundering**. It is an indicator requiring appropriate review.

6. Cash Transaction Monitoring
Banks monitor cash transactions particularly carefully because large amounts of physical cash can be difficult to trace.
They look for patterns such as:

- Large cash deposits
- Repeated cash deposits
- Multiple deposits at different branches
- Transactions structured to avoid applicable reporting requirements
- Cash activity inconsistent with the customer's business

7. Suspicious Transaction Reporting
If, after appropriate examination, a transaction or activity meets the applicable suspicion/reporting criteria, the bank reports it to the **Financial Intelligence Unit–India (FIU-IND)** as required under the PMLA framework.
Important distinction
STR does not mean:
"The customer is a criminal."
It means that the regulated entity has identified activity that meets the applicable criteria for suspicious transaction reporting.

8. Cash Transaction Reporting
Banks also report prescribed categories of transactions to **FIU-IND** in accordance with the PMLA Rules.
This enables financial intelligence authorities to identify patterns across different accounts and institutions.

9. Sanctions and Terrorist-Financing Screening
Banks screen customers and transactions against applicable:

- Sanctions lists
- Terrorist lists
- Prohibited/restricted persons and entities
- Regulatory requirements

Potential matches are investigated according to the applicable procedures.

10. Enhanced Due Diligence

Where a customer or transaction presents higher risk, the bank may obtain additional information, such as:

- Source of funds
- Source of wealth, where required
- Purpose of transaction
- Nature of business
- Ownership/control information
- Supporting documents

The bank may also increase the frequency of monitoring.

11. Monitoring International Transactions

International transactions receive appropriate scrutiny because money laundering may involve moving funds between countries.

The bank may examine:

Sender → Purpose → Amount → Currency → Destination → Beneficiary → Customer profile

For example, an import payment should be reasonably consistent with the customer's business and supporting trade documentation.

12. Record Keeping

Banks maintain prescribed records concerning:

- Customer identification
- Account information
- Transactions
- Relevant KYC information
- Reports and investigation records

Records enable authorities to **trace the movement of money** when necessary.

13. Periodic KYC Updating

Banks periodically update customer information according to the applicable KYC requirements and customer risk.

This is important because:

- Customer circumstances change.
- Businesses change their activities.
- Addresses may change.
- Ownership structures may change.
- Transaction patterns may change.

14. Technology and Artificial Intelligence

Modern banks increasingly use technology for AML monitoring.

Systems can identify:

- Unusual transaction patterns
- Networks of connected accounts
- Repeated transactions
- Geographic patterns
- Rapid movement of funds
- Potential structuring
- Suspicious beneficiary relationships

AI/ML can assist investigators, but banks still need appropriate **human review, governance and controls**.

15. Employee Training

Bank employees are trained to identify possible indicators of:

- Money laundering
- Fraud
- Identity misuse
- Terrorist financing
- Suspicious cash activity
- Unusual account behaviour

Employees must follow the bank's AML/KYC procedures and escalation mechanisms.

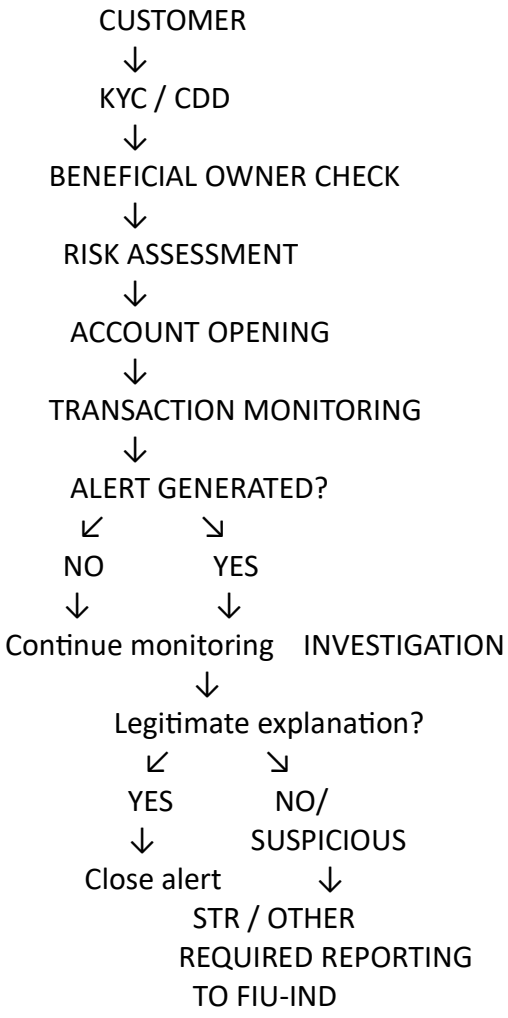
16. Internal Audit and Compliance

Banks maintain internal controls to ensure that AML procedures are actually working.
A simplified structure is:

Operations → Compliance/AML → Internal Audit

- **Operations:** Performs customer and transaction-level checks.
- **Compliance/AML:** Monitors risk and investigates alerts.
- **Internal Audit:** Independently examines the effectiveness of controls.

Complete AML Checking Process



Practical AML Checklist for Banks

Check	**What the bank examines**
KYC	Who is the customer?
CDD	What is the customer's profile and purpose?
Beneficial ownership	Who ultimately owns/controls the entity?
Risk assessment	How much AML risk does the relationship present?
Transaction monitoring	Are transactions consistent with the profile?
Cash monitoring	Are cash transactions unusual or structured?
International transactions	Is the cross-border activity reasonable and permitted?
Sanctions screening	Is a prohibited/restricted person or entity involved?
Record keeping	Can transactions and customer information be reconstructed?
STR/other reporting	Does activity meet applicable reporting criteria?
KYC updating	Is customer information current?
Audit	Are AML controls working effectively?

The key principle

Banks do not prevent money laundering by checking only one transaction or one document. They build a continuous system of customer identification, risk assessment, transaction monitoring, investigation, record keeping and regulatory reporting.

Easy formula for examinations

KYC + CDD + Beneficial Owner Identification + Risk Assessment + Transaction Monitoring + Record Keeping + STR/Regulatory Reporting + Internal Controls = AML Framework

RBI Guidelines Regarding AML/KYC

The Reserve Bank of India (RBI) regulates **Know Your Customer (KYC), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)** requirements for banks and other RBI-regulated entities.

The principal document is the **RBI Master Direction – Know Your Customer (KYC) Direction, 2016**, which is issued under the relevant provisions of the Banking Regulation Act, RBI Act, Payment and Settlement Systems Act, FEMA and the PMLA framework. The RBI's currently available consolidated version is updated through **6 November 2024**. (rbi.org.in)

1. Main Objectives

The RBI's KYC/AML framework aims to:

- Prevent banks from being used for **money laundering**.
- Prevent **terrorist financing**.
- Establish and verify the identity of customers.
- Identify **beneficial owners**.
- Understand the nature and purpose of customer relationships.
- Monitor transactions on an ongoing basis.
- Detect and report suspicious transactions.
- Maintain appropriate customer and transaction records.
- Manage money-laundering and terrorist-financing risks.

The underlying legal framework includes the **Prevention of Money-Laundering Act, 2002 (PMLA)** and the **Prevention of Money-laundering (Maintenance of Records) Rules, 2005**. (systemhealth.rbi.org.in)

2. KYC Policy of the Bank

Every regulated entity must have a **Board-approved KYC policy**.

The RBI framework identifies four key elements of KYC policy:

1. **Customer Acceptance Policy**
2. **Customer Identification Procedures**
3. **Monitoring of Transactions**
4. **Risk Management**

These form the basic structure of a bank's KYC/AML Programme. (rbi.org.in)

3. Customer Acceptance Policy

Banks must establish policies for determining **which customers can be accepted and under what conditions**.
Banks should not open or maintain accounts that are:

- Anonymous
- Fictitious
- In a clearly false name
- Otherwise, inconsistent with the applicable KYC requirements

The bank also assesses the customer's risk and obtains the information necessary to establish the relationship.

4. Customer Identification Procedure — CIP

CIP = Customer Identification Procedure.

Banks must identify and verify customers when establishing an account-based relationship and in other situations prescribed under the KYC framework.
The bank establishes:
Who is the customer? → Is the identity genuine? → What is the purpose of the relationship?
The identity must be verified using **reliable and independent sources of identification**. (systemhealth.rbi.org.in)

5. Customer Due Diligence — CDD

CDD = Customer Due Diligence.

CDD involves:

- Identifying the customer
- Verifying the customer's identity
- Identifying and verifying the beneficial owner where applicable
- Understanding the purpose and intended nature of the business relationship
- Applying appropriate risk-based controls

RBI's framework specifically defines CDD around identification and verification using reliable and independent sources. It also applies in specified occasional transactions and international money-transfer operations. (systemhealth.rbi.org.in)

6. Identification of Beneficial Owner

For legal entities, banks must identify the **natural person(s) who ultimately own or control the customer**, according to the applicable rules.
This is particularly important for:

- Companies
- Partnership firms
- Trusts
- Societies and associations
- Other legal entities

Purpose

To prevent criminals from hiding behind:
Company → intermediary → nominee → actual controller
The bank attempts to establish the **ultimate beneficial ownership/control**.

7. Risk-Based Approach

RBI requires regulated entities to maintain a **risk-based approach** to KYC/AML.

Customers and relationships are assessed according to their potential:

- Money-laundering risk
- Terrorist-financing risk
- Transaction risk
- Geographic risk
- Customer/business risk

Higher-risk relationships receive **more intensive monitoring and due diligence**.

8. Ongoing Due Diligence

KYC does not end when an account is opened.

Banks must conduct **ongoing due diligence** and monitor whether transactions are consistent with the customer's:

- Business/activity
- Risk profile
- Source of funds, where applicable
- Expected transaction pattern

The RBI framework specifically contains provisions for **ongoing due diligence and enhanced/simplified due diligence**. (rbi.org.in)

9. Transaction Monitoring

Banks must establish systems to identify transactions that appear unusual or suspicious.

Examples of indicators may include:

- Unusually large transactions
- Transactions inconsistent with the customer's profile
- Unusual cash activity
- Rapid movement of funds
- Multiple connected transactions
- Unusual international transfers
- Transactions without an apparent legitimate economic purpose

An unusual transaction is not automatically a crime. It may generate an alert requiring investigation and appropriate action.

10. Suspicious Transaction Reporting

Where activity meets the applicable criteria for suspicious transaction reporting, the bank reports it to the **Financial Intelligence Unit–India (FIU-IND)** under the PMLA framework.

The purpose is to provide financial intelligence to the competent authority.

A suspicious transaction report should **not itself be treated as a finding that the customer has committed a crime**.

11. Record Maintenance

Banks are required to maintain prescribed records relating to:

- Customer identification
- Accounts
- Transactions
- KYC information
- Relevant reports

The records enable authorities to reconstruct financial transactions and trace the movement of funds when required.

12. Central KYC Records Registry — CKYCR

Banks and other regulated entities participate in the **Central KYC Records Registry (CKYCR)** framework.

Where applicable, KYC information can be uploaded to and retrieved from the central KYC system, reducing the need for customers to repeatedly submit the same KYC information.

RBI has also clarified that where an existing customer is already KYC-compliant with the same regulated entity, opening another account or obtaining another product generally does not require a fresh CDD exercise merely to identify the customer. (systemhealth.rbi.org.in)

13. Aadhaar-Based KYC

RBI permits certain **Aadhaar-based authentication/e-KYC mechanisms**, subject to the conditions prescribed under the applicable legal and regulatory framework.

Possible digital identification mechanisms include:

- Aadhaar authentication/e-KYC
- Offline Aadhaar verification
- Digital KYC
- Video-based Customer Identification Process (**V-CIP**)

Aadhaar is therefore one permitted KYC mechanism; it should not be treated as meaning that **Aadhaar alone replaces every other applicable KYC/AML requirement**.

14. Video-Based Customer Identification — V-CIP

V-CIP permits customer identification through a secure live video process.

The bank can conduct appropriate:

- Customer identification
- Photograph/image capture
- Document verification
- Liveness checks
- PAN/identity verification
- Record creation

subject to RBI's prescribed requirements.

15. PAN/Form 60

Banks obtain and verify **PAN** where required under applicable law.

Where a person does not have PAN and is permitted to furnish an alternative declaration, **Form 60** is obtained as applicable.

RBI has specifically reiterated the requirement concerning PAN verification and Form 60 under its KYC framework. (rbi.org.in)

16. Small Accounts

RBI's KYC framework provides special provisions for **small accounts**, subject to specified conditions and limitations.

These provisions are intended to facilitate access to banking while maintaining appropriate safeguards against misuse.

17. Enhanced Due Diligence

For customers or relationships presenting higher risk, banks apply enhanced controls.

This can involve obtaining additional information regarding:

- Source of funds
- Source of wealth, where applicable
- Nature of business
- Purpose of transactions
- Beneficial ownership
- Expected transaction pattern

Higher-risk accounts are subject to **more intensive monitoring**. (systemhealth.rbi.org.in)

18. Simplified Due Diligence

The framework also permits **simplified procedures in specified circumstances**, particularly for customers assessed as lower risk and where the prescribed conditions are satisfied.

Simplified due diligence does **not mean that the bank can ignore KYC requirements**.

19. International Wire Transfers

RBI's KYC framework contains specific requirements concerning **domestic and cross-border wire transfers**.

Banks must obtain/maintain appropriate information concerning the **originator and beneficiary** and comply with applicable requirements for international money transfers.

This is particularly important in:

- Import payments
- Export proceeds
- Foreign remittances
- Cross-border business payments

20. Sanctions and Terrorist Financing

Banks must implement applicable measures for preventing transactions involving persons or entities subject to relevant sanctions/prohibitions.

RBI's November 2024 KYC amendment incorporated instructions related to implementation of **Section 51A of the Unlawful Activities (Prevention) Act, 1967**. (systemhealth.rbi.org.in)

21. Internal Audit and Compliance

KYC/AML compliance must be subject to appropriate internal control and audit mechanisms.
RBI has specifically required regulated entities to ensure that their **concurrent/internal audit systems verify compliance with KYC/AML policies and procedures** and report appropriately to the Audit Committee. (rbi.org.in)

22. Employee Training

Banks must maintain appropriate systems for:

- Employee training
- AML/KYC awareness
- Identification of suspicious activity
- Internal reporting/escalation
- Compliance monitoring

Employees handling customer relationships and transactions therefore form an important part of the AML control system.

23. Recent RBI Amendment — 6 November 2024

For a **current academic answer**, it is useful to mention the November 2024 amendment.
RBI amended the KYC Direction to:

- Align the framework with amendments to the **PML (Maintenance of Records) Rules, 2005**.
- Incorporate instructions concerning implementation of **Section 51A of UAPA**.
- Revise certain KYC instructions.
- Clarify application of CDD at the **Unique Customer Identification Code (UCIC) level** for existing KYC-compliant customers. (systemhealth.rbi.org.in)

Summary of RBI AML/KYC Guidelines

RBI Requirement	Main Purpose
KYC Policy	Establish bank-wide KYC/AML framework
Customer Acceptance Policy	Decide acceptable customer relationships
CIP	Identify and verify customers
CDD	Understand customer and risk
Beneficial Owner identification	Identify ultimate ownership/control
Risk classification	Apply proportionate controls
Ongoing due diligence	Continuously assess customer activity
Transaction monitoring	Detect unusual/suspicious activity
Enhanced due diligence	Control higher-risk relationships
CKYCR	Centralise/reuse KYC information
Aadhaar e-KYC/V-CIP	Facilitate permitted digital identification
PAN/Form 60	Tax/KYC compliance
Wire-transfer controls	Control domestic/cross-border transfers
Sanctions/UAPA screening	Prevent prohibited financing

RBI Requirement	Main Purpose
Record keeping	Preserve financial/KYC trails
FIU-IND reporting	Provide required financial intelligence
Internal audit	Test AML/KYC compliance
Employee training	Maintain effective AML controls

Exam-ready conclusion

RBI's AML/KYC framework requires banks to know and verify their customers, identify beneficial owners, assess ML/TF risk, conduct customer due diligence and ongoing monitoring, maintain prescribed records, report suspicious and other prescribed transactions, implement sanctions-related controls, and maintain effective internal audit and compliance systems. The principal regulatory instrument is the RBI Master Direction – Know Your Customer (KYC) Direction, 2016, issued within the legal framework of the PMLA and related rules. (rbi.org.in)

Official RBI reference: RBI — Master Direction: Know Your Customer (KYC) Direction, 2016

Closing a Bank Account

Meaning

Closing a bank account means terminating the banking relationship for a particular account and settling the balance and other obligations connected with that account.

An account may be closed **at the customer's request**, because of the death of the account holder, completion of a specific purpose, conversion to another account, or in certain circumstances by the bank in accordance with applicable law, regulatory requirements and the account terms.

1. Reasons for Closing a Bank Account

A bank account may be closed for several reasons:

A. Customer's Request

The customer may voluntarily decide to close the account because:

- The account is no longer required.
- The customer has moved to another bank.
- The customer wants to consolidate accounts.
- The customer is dissatisfied with the service.
- The account was opened for a temporary purpose.

B. Death of the Account Holder

An account may be settled following the death of the account holder according to the applicable **nomination, survivorship and deceased-claim procedures**.

C. Account No Longer Required

For example, a temporary or special-purpose account may be closed after its purpose is completed.

D. Bank's Closure

A bank may close an account in circumstances permitted by the applicable law, regulations and account agreement, including certain compliance, operational or risk-related circumstances. Appropriate notice and procedure may apply depending on the circumstances.

2. General Procedure for Closing an Account

Step 1 — Submit Account Closure Request

The customer submits an **Account Closure Form/Application** to the bank.

The request generally contains:

- Account number
- Account-holder name
- Signature
- Reason for closure, where required
- Details for payment of the remaining balance

Step 2 — Verify the Customer

The bank verifies:

- Customer identity
- Signature/authentication
- Authority to close the account

For a joint account, the requirements depend on the **mode of operation and applicable bank rules**.

Step 3 — Check Outstanding Obligations

The bank checks whether there are:

- Outstanding charges
- Loans or overdrafts linked to the account
- Unpaid cheques
- Pending transactions
- Holds/lien
- Other obligations or restrictions

These matters may need to be resolved before final closure.

Step 4 — Return/Disable Banking Instruments

Where applicable, the customer may be required to return or appropriately dispose of:

- Unused cheque leaves
- Passbook
- Debit/ATM card
- Other bank-issued instruments

The bank disables the account's relevant transaction facilities.

Step 5 — Settle the Remaining Balance

Any **credit balance** remaining after applicable deductions is paid/transferred according to the bank's procedure and the customer's instructions.

For example:

Account Balance ₹25,000

− **Applicable outstanding amount ₹500**

= **Balance ₹24,500 returned/transferred**

Step 6 — Cancel Standing Instructions

The bank should cancel or deal appropriately with:

- Standing instructions
- Auto-debits
- ECS/NACH mandates
- Recurring payments
- Other linked instructions

The customer should also arrange to update payment mandates with third parties before closure.

Step 7 — Close the Account

After completion of the necessary checks, the bank marks the account as **closed** in its system.

Step 8 — Obtain Confirmation
The customer should retain the bank's **account-closure confirmation/acknowledgement** and relevant final statement.

3. Closing Different Types of Accounts
A. Savings Account
The account holder submits the closure request, completes authentication, settles outstanding matters and receives the remaining balance.
B. Current Account
For a business current account, the bank may require additional confirmation from the **authorized signatory/persons authorized to operate the account**.
For companies, partnerships, trusts and other entities, appropriate authorization/resolutions and other documentation may be required.
C. Fixed/Term Deposit
A term deposit may be closed:

- On maturity, or
- Before maturity, if premature withdrawal is permitted under the applicable terms.

Premature closure can affect the interest payable.
D. Recurring Deposit
The RD may be closed at maturity or prematurely subject to the applicable scheme conditions.

4. Closing a Joint Account
Special care is required for joint accounts.
The bank examines:

- Names of all account holders
- Mode of operation
- Signatures/authorization
- Whether all required account holders have consented
- Whether there is a survivorship clause
- Whether any legal restriction exists

The exact procedure depends on the account mandate and circumstances.

5. Closure Due to Death
Where the account holder has died, the procedure is different from an ordinary voluntary closure.
The bank generally requires:
Death certificate → Nominee/survivor/legal claimant → Identity verification → Applicable claim documentation → Settlement → Account closure
Where a valid nomination exists, the bank follows its applicable **nominee settlement procedure**.
Where there is no nomination, the bank follows its **deceased-claim procedure**, which may require appropriate legal/succession documents depending on the circumstances.

6. Closure by the Bank

A bank may close an account were permitted by:

- Applicable law
- RBI directions
- KYC/AML requirements
- Terms and conditions of the account

Examples can include situations involving:

- Serious KYC deficiencies
- Prohibited or unlawful activity
- Regulatory restrictions
- Persistent non-compliance
- Account inactivity, subject to applicable rules and procedures

However, **account closure should not be treated as automatic merely because a transaction is unusual**. Banks should follow their prescribed risk, compliance and legal procedures.

7. Important Precautions Before Closing

Before closing an account, the customer should:

- Download/obtain recent account statements.
- Stop incoming payments.
- Change salary/pension/benefit credits to another account.
- Cancel or transfer auto-debits.
- Change UPI/payment mandates where necessary.
- Clear outstanding cheques and payments.
- Cancel subscriptions linked to the account.
- Obtain written confirmation of closure.
- Keep records of the final balance and transactions.

8. Account Closure Flow

CUSTOMER REQUEST
↓
CLOSURE APPLICATION
↓
CUSTOMER VERIFICATION
↓
CHECK PENDING TRANSACTIONS/
LIENS/OUTSTANDING DUES
↓
CANCEL LINKED INSTRUCTIONS
↓
RETURN/DISABLE BANKING TOOLS
↓
SETTLE REMAINING BALANCE
↓
CLOSE ACCOUNT
↓
ISSUE CLOSURE CONFIRMATION

Simple Definition

Account closure is the process by which a bank terminates a customer's account after receiving a valid closure request or upon another permitted basis, verifying the customer's authority, settling outstanding transactions and obligations, paying/transferring the remaining balance, and disabling the account.

Key distinction

Account closure ≠ account dormancy/inactivity.

An inactive account may remain open subject to applicable rules, whereas **closure terminates the account relationship for that account**.

Bank Account Closure Procedure — By Customer or By Bank

A bank account may be closed either **at the request of the customer** or **by the bank under circumstances permitted by law, RBI directions, and the account's terms and conditions**.

1. Closure of Account by the Customer

A customer generally has the right to request closure of their bank account.

Procedure

Step 1 — Submit closure request

The customer submits the bank's **Account Closure Form** or written request through the permitted channel.

The request normally contains:

- Account number
- Name of account holder(s)
- Signature/authentication
- Instructions for payment/transfer of the remaining balance

Step 2 — Authenticate the request

The bank verifies the customer's identity and authority to close the account.

For joint accounts, the required consent/signatures depend on the **account mandate and applicable bank procedure**.

Step 3 — Check pending transactions

The bank checks for:

- Outstanding cheques
- Pending electronic payments
- Unsettled transactions
- Holds/lien
- Overdrafts or other dues
- Bank charges

Step 4 — Settle outstanding amounts

Any amount payable to the bank is settled from the account, subject to applicable terms.

Step 5 — Cancel linked facilities

The customer should arrange cancellation/change of:

- Standing instructions
- ECS/NACH mandates
- Auto-debits
- UPI mandates
- Recurring payments
- Other linked services

Step 6 — Return/disable instruments
Where applicable:

- Unused cheque leaves are dealt with according to bank procedure.
- Debit/ATM card is surrendered or disabled.
- Other account-linked facilities are terminated.

Step 7 — Pay the remaining balance
The bank transfers/pays the **remaining credit balance** according to the customer's instructions and applicable procedures.
Step 8 — Close the account
The bank marks the account as **closed** and provides appropriate confirmation/statement.

2. Closure of Account by the Bank
A bank can also close an account in circumstances permitted by the **law, RBI requirements and contractual terms**.
Examples may include:

- Serious or unresolved KYC deficiencies
- Prohibited or unlawful use of the account
- Regulatory/legal requirements
- Persistent violation of account terms
- Certain risk/compliance circumstances
- Other grounds specified in the account agreement and applicable rules

Procedure
Step 1 — Identify the reason
The bank determines the applicable reason for closure.
Step 2 — Review and approve
The bank follows its internal compliance, risk-management and authorization procedures.
Step 3 — Give notice where required
Where the circumstances permit, the bank generally communicates the proposed closure and gives the customer appropriate notice in accordance with applicable requirements and the account terms.
The notice period can depend on **why the account is being closed and the applicable rules**.
Step 4 — Stop/limit operations where legally necessary
Where immediate action is required—for example, because of a legal or regulatory restriction—the bank may restrict transactions without waiting for an ordinary notice period.
Step 5 — Settle the balance
Subject to legal restrictions, liens, claims or other obligations, the bank settles the remaining credit balance with the customer.
Step 6 — Close the account
The bank disables the account and terminates the relevant banking facilities.

3. Customer Closure vs Bank Closure

Basis	Customer-initiated closure	Bank-initiated closure
Initiated by	Customer	Bank
Reason	Customer's choice	Legal, regulatory, contractual, risk or operational reason
Application	Closure request/form normally submitted	Bank initiates its prescribed process
Authentication	Customer's identity/authority verified	Bank verifies relevant circumstances and authority
Notice	Generally, not a major issue, subject to bank procedure	Notice may be required depending on circumstances
Outstanding dues	Must be settled	Must be settled
Remaining balance	Returned/transferred	Settled subject to applicable restrictions
Final result	Account closed	Account closed

4. Important Situations

A. Customer wants to close the account

Customer → Closure request → Verification → Settle dues → Transfer balance → Close account

B. Bank wants to close an account for ordinary contractual/compliance reasons

Bank identifies grounds → Review → Notice where required → Customer given applicable opportunity/time → Settlement → Closure

C. Legal/regulatory restriction

If a competent authority or applicable law requires restriction/freezing of an account, the bank must follow that requirement. In such a situation, **the normal customer-request closure process may not apply**.

D. Death of the account holder

This is normally handled through the bank's **deceased-depositor settlement procedure**, involving the survivor/nominee/legal claimant as applicable, rather than treating it as an ordinary customer-requested closure.

5. Can a Bank Refuse a Customer's Request to Close an Account?

A bank may not simply ignore a valid closure request. However, closure can be subject to:

- Pending transactions
- Outstanding liabilities
- Legal orders
- Account freezes
- Liens
- Regulatory restrictions
- Fraud/AML investigations
- Other applicable legal or contractual requirements

Thus, **"customer requests closure" does not necessarily mean that the account must be immediately closed in every circumstance.**

6. Can a Bank Close an Account Without the Customer's Permission?

Yes, in appropriate circumstances.

A bank may terminate an account relationship when permitted by the applicable law, regulatory requirements and account terms. However, the bank should follow the **prescribed procedure and applicable notice requirements**, unless the circumstances legally require immediate restriction or closure.

For example, a legal/regulatory direction may require the bank to **freeze or restrict an account immediately**.

7. Final Checklist

Customer-initiated closure

☑ Closure application
☑ Identity/authentication
☑ Joint-holder consent where required
☑ Pending transactions checked
☑ Dues settled
☑ Standing instructions cancelled
☑ Linked payment mandates changed
☑ Banking instruments dealt with
☑ Balance transferred/paid
☑ Closure confirmation obtained

Bank-initiated closure

☑ Valid grounds identified
☑ Internal review/approval
☑ Applicable legal/regulatory checks
☑ Notice to customer where required
☑ Restrictions applied where legally necessary
☑ Outstanding obligations settled
☑ Remaining balance dealt with subject to restrictions
☑ Account closed
☑ Appropriate records maintained

Exam-ready answer

A bank account may be closed either by the customer or by the bank. In customer-initiated closure, the customer submits a closure request, the bank verifies authority, checks pending transactions and liabilities, cancels or disables linked facilities, settles the remaining balance and closes the account. In bank-initiated closure, the bank must have a valid basis under applicable law, RBI requirements or the account terms, follow the prescribed internal and notice procedures where applicable, comply with any legal restrictions, settle the account balance subject to such restrictions, and formally close the account.

Chapter 4: Accounting, Finance & Operations

Finance and Operations in a Bank

Finance and Operations are two major functional areas of banking. Finance focuses mainly on the bank's **financial resources, profitability, accounting, capital and financial reporting**, while operations focuses on the **day-to-day processing and delivery of banking services**.

1. Finance in a Bank

Banking finance involves managing the bank's money, capital, income, expenses, assets and liabilities.

Major functions of bank finance:

1. **Financial planning and budgeting**
    - Preparing annual budgets.
    - Forecasting income, expenses and profitability.
    - Allocating financial resources among departments and branches.
2. **Asset and Liability Management (ALM)**
    - Managing loans, investments and other assets.
    - Managing deposits, borrowings and other liabilities.
    - Controlling liquidity, interest-rate and maturity mismatches.
3. **Capital management**
    - Maintaining adequate regulatory capital.
    - Managing capital adequacy and capital planning.
    - Supporting business expansion while controlling risk.
4. **Treasury management**
    - Managing the bank's liquidity.
    - Investing surplus funds.
    - Managing money-market and other eligible investments.
    - Managing interest-rate and foreign-exchange risks where applicable.
5. **Revenue management**
    - Interest income from loans and investments.
    - Fees and commissions from banking services.
    - Other permitted sources of income.
6. **Expense management**
    - Employee costs.
    - Technology and infrastructure costs.
    - Branch and administrative expenses.
    - Cost-control and efficiency measures.
7. **Profitability management**
    - Measuring profitability of products, branches and business units.
    - Managing the spread between lending and funding costs.
    - Improving **Return on Assets (ROA)** and **Return on Equity (ROE)**.
8. **Accounting and financial reporting**
    - Recording financial transactions.
    - Preparing financial statements.
    - Maintaining appropriate books and records.
    - Regulatory and statutory reporting.
9. **Tax management**
    - Determining tax liabilities.
    - Maintaining tax records.
    - Complying with applicable tax requirements.
10. **Financial risk management**

- Credit risk.
- Market risk.
- Liquidity risk.

- Interest-rate risk.
- Operational risk and other relevant financial risks.

2. Operations in a Bank

Banking operations refer to the systems, processes, people and activities through which a bank delivers its services and processes transactions.

Major banking operations

Area	Main activities
Account operations	Opening, maintaining and closing accounts
Cash operations	Cash deposits, withdrawals and cash management
Clearing	Processing cheques and other clearing transactions
Payments	NEFT, RTGS, IMPS, UPI and other payment services
Deposit operations	Savings, current, term and other deposit products
Loan operations	Loan processing, documentation, disbursement and repayment
Customer service	Queries, complaints, requests and service delivery
KYC operations	Customer identification, verification and updating
AML operations	Transaction monitoring and suspicious-transaction controls
Digital banking	Internet banking, mobile banking, ATMs and digital payments
Cards	Debit/credit card issuance, processing and dispute handling
Back-office operations	Verification, reconciliation, records and transaction processing
Branch operations	Daily branch administration and transaction supervision
Reconciliation	Matching internal records with settlement/payment records
Settlement	Final settlement of transactions between banks and systems
Fraud control	Detection, investigation and prevention of fraudulent transactions

3. Finance vs. Operations

Basis	Finance	Operations
Main focus	Money and financial performance	Processing and service delivery
Objective	Profitability, liquidity and financial stability	Efficient, accurate and secure transactions
Key concern	Income, expenses, assets, liabilities and capital	Processes, transactions, customers and systems
Major activities	Budgeting, accounting, treasury, ALM, capital management	Account, cash, payment, clearing and loan processing
Output	Financial information and financial decisions	Completed banking transactions and services
Performance measures	Profit, ROA, ROE, NIM, cost-income ratio	Processing time, accuracy, service quality, error rates
Risk emphasis	Financial and balance-sheet risks	Operational, process, fraud and transaction risks

4. Relationship between Finance and Operations

Finance and operations are **closely interconnected**.

For example:

Customer deposits → Operations processes the deposit → Finance records the liability → Treasury/ALM manages the funds → Bank earns income through lending/investment → Finance measures profitability.

Similarly:

Loan application → Operations processes documentation and disbursement → Loan becomes an asset → Finance records interest income → Operations processes repayments → Finance measures the loan's profitability and financial impact.

5. Simple Structure

Bank

→ **Finance**

- Accounting
- Treasury
- ALM
- Budgeting
- Capital management
- Tax
- Financial reporting
- Profitability management

→ **Operations**

- Branch operations
- Account operations
- Cash management
- Clearing
- Payments
- Loan processing
- Customer service
- KYC/AML processes
- Digital banking
- Reconciliation
- Back-office processing

In short: Finance manages the bank's financial health; Operations makes the bank's day-to-day banking activities work efficiently, accurately and securely.

Sources and Application of Finance in Banks

In banking, **sources of finance** refer to the various ways through which a bank obtains funds, while **application of finance** refers to how the bank deploys or uses those funds to earn income and meet its obligations.

1. Sources of Finance of Banks

The principal sources are:

A. Deposits from Customers

Deposits are the **most important source of funds** for commercial banks.

Types include:

- **Savings deposits**
- **Current deposits**
- **Fixed/term deposits**

- **Recurring deposits**
- Other permitted deposit products

Banks pay interest on interest-bearing deposits and use the funds for lending and investment.

B. Borrowings

Banks may obtain funds through various borrowing channels, subject to applicable regulations:

- Borrowings from the **Reserve Bank of India (RBI)**
- Inter-bank borrowings
- Call/notice money and other money-market sources
- Borrowings from financial institutions
- Refinance facilities where available
- Issuance of permitted debt instruments

C. Share Capital

A bank can raise capital by issuing shares to investors.

It includes:

- Equity share capital
- Additional capital raised through permitted instruments
- Share premium, where applicable

Share capital forms part of the bank's capital base and provides protection against losses.

D. Reserves and Retained Earnings

Banks may accumulate funds through:

- Statutory reserves
- General reserves
- Retained profits
- Other disclosed reserves

These strengthen the bank's financial position and capital.

E. Bonds and Other Debt Instruments

Banks may raise longer-term funds through permitted:

- Bonds
- Debentures
- Certificates of deposit
- Other debt instruments

The terms and regulatory requirements depend on the nature of the instrument.

F. Sale or Securitization of Assets

Banks may generate funds by transferring eligible financial assets or through permitted securitization arrangements.

For example, a bank may securitize a pool of eligible loans and receive funds in return, subject to applicable regulations.

G. Fees, Commissions and Other Operating Income

Although not generally treated in the same way as deposit funding, banks also generate internal funds through:

- Processing fees
- Commission income
- Service charges
- Investment income
- Foreign-exchange-related income
- Other permitted banking activities

2. Application of Finance in Banks

Banks apply their available funds mainly to **earning assets, liquidity management, operations and other legitimate purposes**.

A. Loans and Advances

This is one of the principal applications of bank funds.

Banks provide:

- Personal loans
- Housing loans
- Vehicle loans
- Education loans
- Business loans
- Working-capital finance
- Agricultural loans
- Term loans
- Overdrafts and cash-credit facilities

The bank earns **interest and other permitted charges** from lending.

B. Investments

Banks invest funds in permitted financial instruments, such as:

- Government securities
- Treasury bills
- Approved securities
- Bonds and other eligible instruments
- Other investments permitted by banking regulations

Investments provide income and also help banks manage liquidity.

C. Cash and Liquidity

Banks must maintain sufficient liquidity to meet:

- Customer withdrawals
- Payment obligations
- Settlement requirements
- Other immediate liabilities

Therefore, a portion of funds is maintained in cash and highly liquid assets.

D. Balances with RBI and Other Banks

Banks maintain balances with:

- RBI
- Other banks
- Correspondent banks, where applicable

These facilitate payment settlement and liquidity management.

E. Fixed Assets and Infrastructure

Banks use funds for:

- Branch buildings
- Offices
- ATMs
- Computers and servers
- Banking equipment

- Security infrastructure
- Furniture and other assets

F. Technology and Digital Banking

Modern banks invest substantially in:

- Core banking systems
- Mobile banking
- Internet banking
- Payment infrastructure
- Cybersecurity
- Data centres/cloud infrastructure
- Artificial intelligence and analytics
- Digital customer-service platforms

G. Employee and Administrative Expenses

Funds are used to meet:

- Salaries and employee benefits
- Rent
- Electricity
- Insurance
- Communication expenses
- Maintenance
- Professional fees
- Other administrative expenses

H. Payment and Settlement Operations

Banks need funds to facilitate:

- NEFT
- RTGS
- IMPS
- UPI
- Card transactions
- Cheque clearing
- Inter-bank settlements

I. Meeting Liabilities

A bank also uses its funds to meet its obligations, including:

- Withdrawal of deposits
- Repayment of borrowings
- Interest payments
- Maturity of deposits
- Other financial liabilities

3. Sources and Applications — Simplified Flow

Sources of Funds

Customer deposits
↓
Borrowings
↓
Share capital
↓
Reserves & retained earnings
↓
Debt instruments
↓
Other permitted sources

Applications of Funds

→ Loans & advances
→ Investments
→ Cash & liquid assets
→ RBI/inter-bank balances
→ Infrastructure & fixed assets
→ Technology
→ Operating expenses
→ Payment & settlement obligations
→ Repayment of liabilities

4. Sources vs. Applications

Sources of Finance	Applications of Finance
Customer deposits	Loans and advances
Share capital	Investments
Reserves	Cash and liquidity
Borrowings	Balances with RBI/banks
Bonds/debt instruments	Fixed assets
Internal earnings	Technology
Other permitted funding	Operating expenses
Asset monetization/securitization	Payment and settlement obligations

Key principle

The basic banking financial model can be expressed as:

Funds raised → Funds deployed → Income generated → Expenses and interest paid → Profit retained/reinvested

The bank must maintain a proper balance between **profitability, liquidity, capital adequacy, safety and regulatory compliance**. A bank cannot simply maximize lending or investment; it must ensure that sufficient funds remain available to meet its obligations and risks.

List of Accounts Maintained by Banks

Banks maintain several types of accounts for **customers, internal accounting, deposits, loans, investments, cash, inter-bank transactions and statutory purposes**.

1. Customer Deposit Accounts

These are the principal accounts maintained for customers.

1. **Savings Bank Account (SB)**
2. **Current Account (CA)**
3. **Fixed Deposit Account (FD) / Term Deposit Account**
4. **Recurring Deposit Account (RD)**
5. **Basic Savings Bank Deposit Account (BSBDA)**
6. **Salary Account**
7. **Nostro Account** – a bank's account maintained with another bank, generally in a foreign country/currency.
8. **Vostro Account** – an account maintained by a foreign bank with a domestic bank.
9. **Escrow Account**
10. **NRE Account** – Non-Resident External account
11. **NRO Account** – Non-Resident Ordinary account
12. **FCNR(B) Account** – Foreign Currency Non-Resident (Bank) account

2. Loan and Advance Accounts

Banks maintain separate accounts for credit facilities granted to customers.

1. **Term Loan Account**
2. **Cash Credit Account**
3. **Overdraft Account**
4. **Demand Loan Account**
5. **Working Capital Loan Account**
6. **Housing Loan Account**
7. **Vehicle/Auto Loan Account**
8. **Education Loan Account**
9. **Personal Loan Account**
10. **Agricultural Loan Account**
11. **MSME/Business Loan Account**
12. **Credit Card Account**
13. **Loan Against Property Account**
14. **Loan Against Securities Account**
15. **Gold Loan Account**

These accounts record **sanction, disbursement, interest, charges, repayments, outstanding balance and classification/status of the facility**.

3. Cash and Internal Bank Accounts

Banks also maintain accounts for their own financial operations.

- **Cash Account**
- **Cash-in-Hand Account**
- **ATM Cash Account**
- **Branch Cash Account**

- **Head Office Account**
- **Branch Adjustment Account**
- **Inter-Branch Account**
- **Suspense Account**
- **Sundry Account**
- **Profit and Loss Account**
- **General Ledger Accounts**

4. Investment Accounts
Banks maintain records of their investments, including:

- Government Securities Account
- Treasury Bills Account
- Bonds Account
- Shares/Equity Investment Account
- Mutual Fund Investment Account, where permitted
- Other permitted securities/investment accounts
- Investment Income Account

5. Clearing and Payment Accounts
These accounts facilitate payment and settlement activities.

- **Clearing Account**
- **Cheque Clearing Account**
- **NEFT Settlement Account**
- **RTGS Settlement Account**
- **IMPS-related settlement accounts**
- **UPI-related settlement accounts**
- **Inter-bank Settlement Account**
- **Payment Gateway/Settlement Accounts**, where applicable

6. Foreign Exchange Accounts
Banks dealing in foreign exchange maintain accounts such as:

- **Nostro Account**
- **Vostro Account**
- **Loro Account**
- Foreign Currency Account
- Foreign Exchange Position Account
- Correspondent Bank Accounts

7. Customer-Specific / Special-Purpose Accounts
Depending on the banking relationship and applicable regulations:

- **Trust Account**
- **Joint Account**
- **Minor's Account**
- **Partnership Account**
- **Company/Corporate Account**

- **Society/Association Account**
- **Government Account**
- **Institutional Account**
- **Escrow Account**
- **Client/Project-specific accounts**

8. Statutory and Regulatory Accounts/Records

Banks maintain accounts and records necessary for regulatory and statutory compliance, including records relating to:

- **Cash Reserve Ratio (CRR)**
- **Statutory Liquidity Ratio (SLR)**
- Capital and reserves
- Provisioning
- Non-Performing Assets (NPAs)
- Interest income
- Interest expense
- Taxes
- Regulatory reporting

9. Memorandum and Off-Balance-Sheet Accounts

Certain transactions may not initially appear as conventional balance-sheet assets or liabilities but are nevertheless recorded and monitored.

Examples include:

- Bank guarantees
- Letters of credit
- Acceptances
- Bills for collection
- Derivative contracts
- Other contingent liabilities

10. Major Accounts in a Bank — At a Glance

Category	Examples
Deposit accounts	Savings, Current, FD, RD
Loan accounts	Term loan, Cash Credit, OD
Investment accounts	Government securities, bonds
Cash accounts	Cash-in-hand, ATM cash
Inter-bank accounts	Nostro, Vostro, correspondent accounts
Clearing accounts	Cheque, NEFT, RTGS settlement
Foreign exchange	Nostro, Vostro, Loro
Special-purpose accounts	Escrow, trust, minor, joint
Income accounts	Interest income, fees, commission
Expense accounts	Interest expense, salaries, administration
Capital accounts	Share capital, reserves
Adjustment accounts	Suspense, sundry, inter-branch
Contingent accounts	Guarantees, letters of credit

Important distinction

The phrase **"accounts maintained by banks"** can mean two different things:

1. **Accounts offered/maintained for customers** — savings, current, FD, RD, loan accounts, etc.
2. **Accounts maintained in the bank's own books** — cash, investments, capital, income, expenses, provisions, inter-bank accounts, suspense accounts, etc.

For **Banking/Bank Management examinations**, this distinction is important because a bank's **customer accounts** are only one part of its overall accounting system.

Accounting Procedures and Important Books Maintained by Banks

Bank accounting is the systematic process of **recording, classifying, summarizing, reconciling and reporting** all financial transactions of a bank. Since banks handle a very large number of transactions every day, their accounting system is designed around **accuracy, internal control, auditability and timely reconciliation**.

1. Accounting Procedure in Banks

The general accounting procedure can be represented as:

Transaction → Source document → Voucher/Entry → Subsidiary records → General Ledger → Trial Balance → Financial Statements → Audit & Reporting

Step 1: Initiation of transaction

A transaction may arise from:

- Cash deposit or withdrawal
- Cheque transaction
- Electronic payment
- Opening or closing of an account
- Loan disbursement
- Loan repayment
- Deposit maturity
- Interest calculation
- Purchase or sale of investments

- Bank charges and commissions
- Inter-bank transactions

Step 2: Preparation/verification of source documents

The bank verifies the documents or electronic instructions supporting the transaction.

Examples:

- Deposit slip
- Withdrawal form
- Cheque
- Pay-in slip
- Payment instruction
- Loan documents
- Electronic transaction records
- Account-opening documents

Step 3: Recording the transaction

The transaction is entered into the appropriate accounting system.

Traditionally, this involved **debit and credit entries in journals and subsidiary books**. In modern banks, most entries are generated and posted electronically through the **Core Banking System (CBS)**.

Step 4: Posting to subsidiary records

Transactions are recorded in the relevant customer or operational records, such as:

- Deposit account
- Loan account
- Cash account
- Clearing account
- Investment account
- Inter-branch account

Step 5: Posting to the General Ledger

The transactions are classified under appropriate **General Ledger (GL) heads**.

Examples:

- Deposits
- Advances
- Investments
- Cash
- Interest income
- Interest expense
- Commission income
- Operating expenses
- Capital and reserves

Step 6: Balancing and reconciliation

Banks regularly reconcile their books with external and internal records.

Important reconciliations include:

- Cash balance
- ATM transactions
- Inter-branch accounts
- Inter-bank accounts
- Clearing accounts

- Suspense accounts
- Payment-system settlements
- Customer accounts

Step 7: Preparation of Trial Balance

The balances of ledger accounts are compiled to verify the basic arithmetical equality of:

Total Debits = Total Credits

Step 8: Year-end adjustments

Banks make appropriate accounting adjustments for items such as:

- Accrued interest
- Outstanding expenses
- Depreciation
- Provisions
- Taxes
- Income recognition
- Non-performing assets
- Investment valuation

Step 9: Preparation of financial statements

The bank prepares its financial statements and regulatory reports in accordance with applicable accounting standards, banking regulations and statutory requirements.

Major statements include:

- **Balance Sheet**
- **Profit and Loss Account**
- **Cash Flow Statement**, where applicable
- Notes/disclosures accompanying the financial statements

Step 10: Audit and regulatory reporting

The accounts are subjected to applicable internal control, audit and regulatory reporting processes.

2. Important Books and Records Maintained by Banks

The exact books and records vary according to the bank, technology and regulatory requirements. Important traditional and modern records include the following.

A. Cash Book

Records **cash receipts and cash payments**.

It generally records:

- Cash received
- Cash paid
- Opening cash balance
- Closing cash balance

B. Day Book / Daily Transaction Book

A consolidated record of transactions occurring during the day.

It helps the bank determine the day's:

- Debits
- Credits
- Cash position
- Transaction totals

In modern CBS environments, much of this functionality is performed electronically.

C. General Ledger

The **General Ledger (GL)** is one of the most important accounting records.
It contains classified accounts relating to:

- Deposits
- Advances
- Investments
- Cash
- Income
- Expenses
- Capital
- Reserves
- Other assets and liabilities

It provides the basis for preparing the **Trial Balance and financial statements**.

D. Subsidiary Ledger

Subsidiary ledgers provide detailed information supporting General Ledger balances.
Examples:

- Savings deposit ledger
- Current account ledger
- Fixed deposit records
- Loan ledger
- Bills ledger
- Investment records

In computerized banking, these are generally maintained electronically.

E. Deposit Account Records

Banks maintain detailed records for individual customer accounts.
They contain information such as:

- Account number
- Customer name
- Deposits
- Withdrawals
- Transfers
- Interest
- Charges
- Closing balance

F. Loan/Advance Register or Loan Records

These contain information about loans and advances.
Important details include:

- Borrower
- Sanctioned amount
- Disbursed amount

- Outstanding amount
- Interest
- Repayments
- Security/collateral
- Due dates
- Classification/status of the account

G. Bills Register
Banks maintain records relating to bills handled by them.
Examples include:

- Bills purchased
- Bills discounted
- Bills for collection

H. Cheque Register
Records cheques received, issued, presented, returned or otherwise processed.
It assists in:

- Clearing
- Payment verification
- Return handling
- Reconciliation

I. Clearing Register
Records transactions passing through the clearing system.
It may contain:

- Cheques received for collection
- Cheques presented
- Cheques returned
- Clearing settlements
- Related adjustments

J. Investment Register
Records the bank's investments.
It may include:

- Government securities
- Treasury bills
- Bonds
- Shares
- Other permitted investments

Details can include purchase date, quantity/face value, cost, maturity, income and valuation.

K. Fixed Asset Register
Records the bank's physical assets, such as:

- Buildings
- Furniture

- Computers
- ATMs
- Vehicles
- Equipment

It normally contains acquisition cost, depreciation and carrying value.

L. Suspense Account Register/Records

A **suspense account** may temporarily record transactions whose correct accounting classification has not yet been established.

Such items should be investigated, reconciled and cleared within the appropriate control framework.

M. Inter-Branch Account Records

These records deal with transactions between different branches of the same bank.

For example:

Customer deposits cash at Branch A → funds are transferred/credited through Branch B → corresponding accounting entries must be reconciled.

N. Inter-Bank Account Records

These record transactions and balances involving other banks.

They are important for:

- Settlements
- Clearing
- Correspondent banking
- Inter-bank transfers
- Reconciliation

O. Profit and Loss Records

These record the bank's:

Income

- Interest income
- Commission
- Fees
- Trading/investment income
- Other operating income

Expenses

- Interest expenses
- Employee expenses
- Administrative expenses
- Depreciation
- Other operating expenses

3. Important Registers and Operational Records

In addition to accounting books, banks maintain numerous registers and operational records.

Book/Register/Record	Purpose
Cash Book	Records cash transactions
Day Book	Records daily transactions
General Ledger	Classified accounting record
Subsidiary Ledger	Detailed supporting records
Deposit Register/Records	Deposit account information
Loan Register/Records	Loans and advances
Bills Register	Bills purchased, discounted and collected
Cheque Register	Cheque transactions
Clearing Register	Clearing transactions
Investment Register	Investment transactions
Fixed Asset Register	Bank's fixed assets
Suspense Records	Temporary/unclassified entries
Inter-Branch Records	Branch-to-branch transactions
Inter-Bank Records	Transactions with other banks
Expense Records	Operating expenses
Income Records	Bank income
Guarantee Register	Bank guarantees
Letter of Credit Records	Letters of credit
Safe Custody Records	Articles/securities held in safe custody

4. Modern Banking Accounting

Traditional banking relied heavily on physical books such as cash books, ledgers and registers. Modern banks largely use **computerised accounting and Core Banking Systems**.

Therefore, the traditional books have generally become **electronic records or system-generated reports**, rather than physical books.

A typical modern process is:
Customer transaction
↓
Core Banking System
↓
Automatic debit/credit entries
↓
Customer/sub-ledger records
↓
General Ledger
↓
Trial Balance
↓
Reconciliation & Controls
↓
Financial Statements & Regulatory Reports

Key accounting principles in banking
The accounting system of a bank should ensure:

- **Accuracy**
- **Completeness**
- **Timeliness**
- **Proper authorization**
- **Segregation of duties**
- **Audit trail**
- **Reconciliation**
- **Fraud prevention**
- **Confidentiality and security**
- **Compliance with applicable accounting and banking regulations**

In summary: The **General Ledger, subsidiary records, cash records, deposit records, loan records, investment records, clearing records and reconciliation records** form the core of a bank's accounting system. In today's banks, these are predominantly maintained electronically through integrated banking and accounting systems.

Principles of Lending and Principles of Deposits in Banking

Banks perform two fundamental financial functions: **accepting deposits** and **granting loans and advances**. Deposits provide banks with funds, while lending is one of the principal ways banks deploy those funds to generate income.

A. Principles of Lending

Principles of lending are the basic considerations that guide a bank before and after granting a loan or advance.

1. Safety

Safety of funds is the primary consideration.

The bank should ensure that the borrower has the ability and intention to repay the principal and interest.

The bank therefore examines:

- Creditworthiness
- Financial position
- Repayment capacity
- Past credit history
- Security/collateral where applicable
- Purpose of the loan

Principle: *The bank should lend only when there is reasonable assurance of repayment.*

2. Liquidity

Banks must maintain sufficient funds to meet deposit withdrawals and other obligations.

Therefore, lending should consider:

- Loan maturity
- Repayment schedule
- Cash-flow requirements
- Liquidity position of the bank

A bank should avoid excessive commitment of funds to loans that cannot be converted into cash or repaid when required.

3. Profitability

Lending should provide an adequate return to the bank.

The bank may earn:

- Interest
- Processing fees
- Service charges
- Other permitted charges

The return should compensate the bank for the **cost of funds, operating costs and risks involved**.

4. Security

Banks may obtain appropriate security or collateral depending on the nature of the facility.

Examples include:

- Immovable property
- Goods/inventory
- Financial securities
- Deposits

- Gold
- Guarantees

However, **security should not be regarded as a substitute for repayment capacity**. The primary source of repayment should normally be the borrower's cash flow or income.

5. Purpose of the Loan

The bank should understand **why the borrower needs the funds**.
Loans may be granted for legitimate purposes such as:

- Business
- Agriculture
- Housing
- Education
- Vehicle purchase
- Working capital
- Productive investment

The bank should avoid financing prohibited or inappropriate activities.

6. Diversification

A bank should avoid excessive concentration of its lending in:

- One borrower
- One industry
- One geographical area
- One economic sector
- One type of asset

Diversification reduces concentration risk.

7. Adequate Documentation

Proper documentation protects the interests of both the bank and borrower.
Depending on the facility, documentation may include:

- Loan agreement
- Promissory note
- Security documents
- Guarantee documents
- Mortgage/hypothecation documents
- Insurance documents
- Financial statements

8. Creditworthiness

Before lending, the bank assesses the borrower.
A traditional framework is the **5 Cs of Credit**:

1. **Character** – willingness to repay
2. **Capacity** – ability to repay
3. **Capital** – borrower's financial strength
4. **Collateral** – available security
5. **Conditions** – economic and business conditions

9. Principle of Proper Supervision

Lending does not end with disbursement.

The bank should monitor:

- Utilization of funds
- Repayment performance
- Financial condition of the borrower
- Security/collateral
- Covenants and conditions
- Early warning indicators

10. Compliance with Law and Regulation

Bank lending must comply with:

- Applicable banking laws
- RBI directions and regulations
- Credit policies
- Prudential requirements
- KYC/AML requirements
- Exposure and concentration limits
- Applicable sectoral requirements

B. Principles of Deposits

Principles of deposits refer to the basic principles that guide banks in accepting, maintaining and managing customer deposits.

1. Safety of Depositor's Money

A depositor expects the bank to safeguard their money.

The bank should maintain:

- Sound financial management
- Adequate liquidity
- Internal controls
- Secure banking systems
- Appropriate risk management

2. Liquidity

The bank should be able to honour legitimate withdrawal requests according to the terms of the deposit.

For example:

- Savings accounts generally allow withdrawals subject to applicable terms.
- Current accounts are designed for frequent transactions.
- Term deposits have specified maturity conditions.

3. Profitability

Deposits are a major source of funds for banks.

Banks need to manage the **cost of deposits** carefully.

For example:

Interest paid on deposits + operating cost → Cost of funds

The bank seeks to deploy these funds productively so that its earnings exceed its funding and operating costs, subject to risk.

4. Convenience to Customers
Banks should provide convenient deposit services through:

- Branches
- ATMs
- Internet banking
- Mobile banking
- Digital payment channels
- Electronic statements
- Nomination facilities

5. Proper Customer Identification
Before opening an account, banks must follow applicable **KYC/customer due-diligence requirements**.
This helps the bank:

- Establish the customer's identity
- Understand the nature and purpose of the relationship
- Prevent misuse of accounts
- Meet AML requirements

6. Proper Documentation
The bank should obtain and maintain required documents and information, such as:

- Account-opening form/application
- Identity and address information as applicable
- Photographs where required
- Specimen signature or appropriate authentication
- Nomination details, where applicable
- Other documents required under applicable rules

7. Confidentiality
Banks have a duty to protect customer information and account details, subject to lawful exceptions such as:

- Legal requirements
- Regulatory requirements
- Court orders
- Law-enforcement requirements
- Customer authorization

8. Fair and Transparent Terms
Banks should clearly communicate:

- Interest rates
- Charges
- Minimum balance requirements, where applicable
- Withdrawal conditions
- Maturity terms

- Penalties/charges, where applicable
- Other material terms

9. Proper Record-Keeping
Banks should accurately maintain records of:

- Deposits
- Withdrawals
- Transfers
- Interest
- Charges
- Account balances
- Customer instructions

10. Protection of Deposits
In India, eligible bank deposits are covered by the **Deposit Insurance and Credit Guarantee Corporation (DICGC)** subject to its applicable rules and limits.

C. Lending vs. Deposits

Principle	**Lending**	**Deposits**
Main concern	Safe deployment of funds	Safe custody and management of funds
Primary objective	Safety + liquidity + profitability	Safety + liquidity + customer service
Risk	Credit/default risk	Withdrawal/liquidity and operational risks
Customer	Borrower	Depositor
Bank's position	Creditor	Debtor
Income/cost	Bank earns interest	Bank generally pays interest on interest-bearing deposits
Important assessment	Repayment capacity	Customer identity and account requirements
Security	May be required depending on facility	Generally, not collateral-based
Documentation	Loan and security documentation	Account-opening and KYC documentation
Monitoring	Borrower's repayment and credit quality	Transactions, account status and compliance

Easy way to remember
Principles of Lending
Safety → Liquidity → Profitability → Security → Purpose → Diversification → Documentation → Creditworthiness → Supervision → Compliance
Principles of Deposits
Safety → Liquidity → Profitability → Convenience → KYC → Documentation → Confidentiality → Transparency → Record-keeping → Deposit protection

Core banking principle: A bank must balance **safety, liquidity and profitability**. It must protect depositors' funds while deploying a prudent portion of those funds through lending and investments to generate sustainable returns.

Bank Interest

Bank interest is the amount charged or earned by a bank for the use of money over a specified period.

From the **borrower's perspective**, interest is the **cost of borrowing** money from the bank.

From the **depositor's perspective**, interest is the **return earned on money deposited with the bank**.

Basic formula

$$\text{Simple Interest} = \frac{P \times R \times T}{100}$$

Where:

- **P** = Principal
- **R** = Rate of interest per annum
- **T** = Time

For example, if ₹1,00,000 is borrowed at 10% p.a. for one year:

Interest = ₹1,00,000 × 10% = ₹10,000

1. Types of Interest Dealt with by Banks

Banks commonly deal with interest in the following forms:

1. **Simple Interest**
2. **Compound Interest**
3. **Flat Rate of Interest**
4. **Reducing Balance / Diminishing Balance Interest**
5. **Front-Ended Interest**
6. **Back-Ended Interest**
7. **Fixed Interest Rate**
8. **Floating/Variable Interest Rate**
9. **Penal Interest / Penal Charges**
10. **Deposit Interest**
11. **Loan/Advance Interest**
12. **Overdraft and Cash-Credit Interest**
13. **Interest on overdue amounts**, where applicable
14. **Interest on savings and term deposits**

2. Simple Interest

Under **simple interest**, interest is calculated only on the original principal for the relevant period.

Formula

$$SI = \frac{P \times R \times T}{100}$$

Example

Loan = ₹1,00,000

Rate = 10% p.a.

Period = 2 years

Interest:

$$1{,}00{,}000 \times 10\% \times 2 = ₹20{,}000$$

Total amount = **₹1,20,000**.

3. Compound Interest

Under **compound interest**, interest is calculated on the principal **plus accumulated interest**, according to the agreed compounding frequency.

Formula

$$A = P\left(1 + \frac{r}{n}\right)^{nt}$$

Where:

- **A** = amount
- **P** = principal
- **r** = annual interest rate
- **n** = number of compounding periods per year
- **t** = time

For example, if ₹1,00,000 earns 10% annually compounded for two years:
Year 1 interest = ₹10,000
Principal becomes = ₹1,10,000
Year 2 interest = ₹11,000
Total = **₹1,21,000**
Thus, compound interest = **₹21,000**.

4. Flat Rate of Interest

Under a **flat rate**, interest is calculated on the **original principal throughout the loan tenure**, rather than on the reducing outstanding balance.

Example

Suppose:

- Loan = ₹1,00,000
- Flat interest rate = 10% p.a.
- Period = 2 years

Interest:

$$₹1,00,000 \times 10\% \times 2 = ₹20,000$$

Total repayment:

$$₹1,00,000 + ₹20,000 = ₹1,20,000$$

If repaid in 24 equal instalments:

$$₹1,20,000/24 = ₹5,000$$

Important point

Although the borrower is gradually repaying the principal, **the flat-rate calculation continues to use the original ₹1,00,000**.

Therefore, a flat rate is generally **not directly comparable to the same numerical rate on a reducing-balance basis**. The effective cost can be considerably higher than the stated flat rate suggests.

5. Reducing Balance / Diminishing Balance Interest

Under the **reducing-balance method**, interest is calculated on the **outstanding principal**, which decreases as repayments are made.

Example

Suppose:

- Loan = ₹1,00,000
- Annual rate = 10%
- Principal repayment = ₹25,000 each quarter

Interest is calculated on the outstanding balance rather than always on ₹1,00,000.
Thus, as the principal falls:
₹1,00,000 → ₹75,000 → ₹50,000 → ₹25,000
the interest amount also reduces, assuming the same rate and calculation convention.
This method is widely relevant to modern loan repayment structures.

6. Front-Ended Interest
Front-ended interest means that the interest for the relevant loan period is **calculated in advance and deducted from the amount disbursed**, rather than being collected separately over the period.
It is also commonly described as **interest deducted in advance**.
Example
Suppose:

- Face value of loan = ₹1,00,000
- Interest = ₹10,000

The bank deducts ₹10,000 at the beginning.
Therefore:
Loan amount sanctioned/face amount = ₹1,00,000
Interest deducted upfront = ₹10,000
Net amount received = ₹90,000
The borrower may nevertheless have an obligation to repay the agreed principal/face amount according to the terms.
Why is it called "front-ended"?
Because the interest is taken at the **front/beginning of the transaction**.
Important consequence
The borrower's **actual cost relative to the cash received** is higher than simply saying "10% on ₹1,00,000," because the borrower receives only ₹90,000 while the interest has already been deducted.

7. Back-Ended Interest
In **back-ended interest**, interest is collected **later**, rather than being deducted at the beginning.
For example:
Loan disbursed → Principal remains outstanding → Interest accrues → Interest paid periodically or at maturity
Many conventional loan arrangements use periodic interest payments.

8. Front-Ended vs. Back-Ended Interest

Basis	Front-Ended Interest	Back-Ended Interest
Timing	Interest taken at the beginning	Interest collected later
Method	Usually deducted from proceeds	Paid periodically or at maturity
Cash received	Less than face/sanctioned amount if deducted upfront	Generally not reduced by upfront interest deduction
Example	₹1,00,000 loan less ₹10,000 interest = ₹90,000 proceeds	₹1,00,000 received; interest paid subsequently
Effective cost	Can be higher than stated rate relative to net proceeds	Depends on calculation and payment structure

9. Fixed Rate of Interest

A **fixed interest rate** remains unchanged for the agreed period, subject to the terms of the loan/deposit contract and applicable rules.

Example:

Loan: ₹5 lakh at 9% fixed for the specified period

The applicable rate does not fluctuate with market benchmark movements during the fixed-rate period, subject to contractual provisions.

Advantages

- Predictable interest expense
- Easier financial planning
- Protection from increases in market rates during the fixed period

10. Floating / Variable Rate of Interest

A **floating rate** changes according to a specified benchmark or reference rate plus/minus the applicable spread, subject to the terms of the facility.

For example:

Interest rate = Benchmark rate + Bank spread

If the benchmark changes, the loan rate may change according to the applicable contractual and regulatory framework.

Advantages

- May benefit from falling interest rates
- Reflects changes in market/benchmark conditions

Risk

The borrower's interest burden can increase when the applicable benchmark rises.

11. Deposit Interest

Banks **pay interest to depositors** on eligible interest-bearing deposits according to the applicable product terms.

Common examples include:

- Savings deposit interest
- Fixed/term deposit interest
- Recurring deposit interest
- Certain non-resident deposit products

The interest rate and calculation/payment method depend on the product and applicable banking rules.

12. Loan Interest

Banks **charge interest to borrowers** on credit facilities.

Examples:

- Housing loans
- Vehicle loans
- Education loans
- Personal loans
- Business loans
- Working-capital facilities
- Term loans

The applicable interest depends on factors such as:

- Type of loan
- Risk
- Tenure
- Benchmark
- Credit profile
- Security
- Bank's pricing policy
- Applicable regulatory requirements

13. Interest on Cash Credit and Overdraft

In **cash-credit and overdraft facilities**, interest is generally related to the amount actually utilized/outstanding rather than simply the sanctioned limit, subject to the facility's terms.

For example:

Sanctioned limit = ₹10 lakh

If the customer uses only ₹4 lakh, interest is generally calculated with reference to the applicable outstanding/utilized amount and applicable calculation rules.

14. Penal Interest / Penal Charges

When a borrower breach specified terms—for example, certain payment or contractual obligations—the bank may impose **penal charges** in accordance with applicable regulatory requirements and the loan terms.

It is important to distinguish **penal charges** from the normal contractual rate of interest. Under current Indian banking regulation, the treatment and disclosure of penal charges are governed by RBI directions.

15. Interest on Overdue Amounts

Where permitted by the applicable loan terms and regulations, interest may continue to accrue on outstanding amounts according to the applicable contractual and regulatory framework.

Banks must follow applicable rules concerning **recognition of income, overdue accounts and non-performing assets (NPAs)**.

16. Interest Calculation According to Frequency

Interest may be calculated or compounded according to the relevant product terms:

- **Daily**
- **Monthly**
- **Quarterly**
- **Half-yearly**
- **Yearly**

The **calculation frequency and compounding frequency are not necessarily the same thing**, so the product terms should always be examined.

17. Banker's View of Interest

Interest can therefore be viewed from two sides:

Deposits

Customer → deposits money → Bank → pays interest

Interest is a **cost/funding expense** to the bank.

Loans

Bank → lends money → Customer → pays interest

Interest is **income** to the bank.

Thus:

Interest income from assets − Interest expense on liabilities = Net Interest Income (NII)

A closely related profitability measure is **Net Interest Margin (NIM)**, which measures the spread between interest earned on earning assets and interest paid on interest-bearing liabilities relative to the relevant asset base.

Summary Table

Type	Meaning
Simple Interest	Interest on original principal
Compound Interest	Interest on principal plus accumulated interest
Flat Rate	Interest calculated on original principal throughout the stated tenure
Reducing Balance	Interest calculated on outstanding principal
Front-Ended Interest	Interest deducted/collected at the beginning
Back-Ended Interest	Interest collected later
Fixed Rate	Rate remains fixed for the agreed period
Floating Rate	Rate changes according to a benchmark/reference mechanism
Deposit Interest	Interest paid by bank to eligible depositors
Loan Interest	Interest charged by bank to borrowers
Penal Charges	Charges imposed for specified breaches/defaults, subject to rules
Overdue Interest	Interest treatment applicable to overdue/outstanding amounts under the relevant terms and rules

Key distinction to remember

Flat rate ≠ reducing-balance rate.
Front-ended interest ≠ ordinary interest paid periodically.
The **flat-rate/reducing-balance distinction concerns the base on which interest is calculated**, while the **front-ended/back-ended distinction concerns when the interest is collected**.
Equated Monthly Installment (EMI)
Equated Monthly Installment (EMI) is a fixed amount that a borrower pays to a bank **every month** to repay a loan over a specified period.
An EMI normally consists of two components:

1. **Principal repayment** – repayment of the amount borrowed.
2. **Interest** – cost of borrowing.

Thus:
EMI = Principal Component + Interest Component

1. EMI Formula
For a standard reducing-balance loan with a constant periodic interest rate:

$$EMI = P \times \frac{r(1+r)^n}{(1+r)^n - 1}$$

Where:

- **P** = Principal loan amount
- **r** = Monthly interest rate
- **n** = Total number of monthly instalments

If the annual interest rate is **R%**, then:

$$r = \frac{R}{12 \times 100}$$

For example, an annual rate of 12% gives:

$$r = \frac{12}{12 \times 100} = 0.01$$

2. Example of EMI
Suppose a person takes a loan of:

- **Principal = ₹5,00,000**
- **Interest rate = 12% p.a.**
- **Tenure = 5 years**
- **Number of instalments = 60 months**

Monthly rate:

$$r = \frac{12\%}{12} = 1\% = 0.01$$

Therefore:

$$EMI \approx ₹11{,}122$$

The borrower pays approximately **₹11,122 every month for 60 months**.
Total payments are approximately:

$$₹11{,}122 \times 60 = ₹6{,}67{,}320$$

Therefore, approximate total interest is:

$$₹6{,}67{,}320 - ₹5{,}00{,}000 = ₹1{,}67{,}320$$

Actual EMI and total interest can vary slightly because banks may use their specified interest-calculation conventions, rounding and repayment dates.

3. How EMI Works

An EMI is called **"equated"** because the scheduled payment amount generally remains the same throughout the repayment period for a standard fixed-rate reducing-balance loan.

However, the **composition of the EMI changes**.

At the beginning

A larger portion goes toward **interest**, and a smaller portion goes toward **principal**.

Toward the end

A larger portion goes toward **principal**, while the interest component becomes smaller.

Illustration

Suppose the EMI is ₹11,122:

Stage	Interest Component	Principal Component	EMI
Early instalments	Higher	Lower	₹11,122
Middle instalments	Moderate	Moderate	₹11,122
Final instalments	Lower	Higher	₹11,122

So:

Outstanding principal decreases → Interest decreases → Principal component increases

4. EMI Amortization

The process of gradually repaying a loan through EMIs is called **amortization**.

An **amortization schedule** shows each instalment:

- Opening outstanding principal
- Interest component
- Principal component
- EMI
- Closing outstanding principal

Example of the basic mechanism

If the outstanding loan at the beginning of a month is ₹5,00,000 and the monthly interest rate is 1%:

Interest = ₹5,00,000 × 1% = ₹5,000

If EMI = ₹11,122:

Principal repayment = ₹11,122 – ₹5,000 = ₹6,122

New outstanding balance:

₹5,00,000 – ₹6,122 = ₹4,93,878

The following month's interest is calculated on the new outstanding balance, subject to the loan's terms and applicable calculation conventions.

5. EMI and Flat-Rate Loans

EMI should not be confused with a **flat-rate instalment**.

Reducing-balance EMI

Interest is calculated on the **outstanding principal**.

Outstanding principal decreases → Interest decreases

Flat-rate instalment

Interest is calculated on the **original principal** for the specified period.
Therefore, a loan advertised as:
10% flat rate
is **not equivalent** to a loan at:
10% reducing-balance rate
The effective cost of the flat-rate loan can be substantially higher than the numerical rate suggests.

6. Factors Affecting EMI
The amount of EMI mainly depends on:
1. Loan amount
Higher loan amount → **higher EMI**
2. Interest rate
Higher interest rate → **higher EMI**
3. Loan tenure
Longer tenure → **lower monthly EMI**, but generally **higher total interest** over the life of the loan.
Shorter tenure → **higher EMI**, but generally **lower total interest**.

7. EMI vs. Interest
These terms are different:
Interest = cost of borrowing
EMI = total periodic repayment
For example:
EMI = ₹20,000
Interest component = ₹7,000
Principal component = ₹13,000
Thus, the entire ₹20,000 is **not interest**.

8. Advantages of EMI
For borrowers
- Predictable monthly payment
- Easier budgeting
- Systematic repayment
- Gradual reduction of loan liability
- Convenient automatic payment options

For banks
- Regular recovery of principal and interest
- Predictable repayment schedule
- Easier loan monitoring
- Systematic amortisation of the loan

9. Disadvantages/Considerations
- A longer tenure can substantially increase total interest paid.
- A higher interest rate increases EMI and/or total borrowing cost.
- Missing EMIs can result in consequences under the loan agreement and applicable regulations.

- Processing fees, insurance, taxes or other charges may increase the overall cost even though they are not part of the EMI itself.
- Floating-rate loans can result in changes to the EMI, tenure, or both, depending on the loan terms and applicable rules.

10. EMI in Different Types of Loans

EMIs are commonly associated with:

- **Home loans**
- **Vehicle loans**
- **Personal loans**
- **Education loans**
- **Consumer durable loans**
- **Business/term loans**

The repayment structure can differ depending on the product.

11. EMI vs. Other Repayment Methods

Feature	**EMI**	**Bullet Repayment**	**Interest-only**
Principal repayment	Gradual	Mainly at maturity	Generally deferred
Interest payment	Usually included in each EMI	As specified	Usually, periodic
Monthly payment	Generally regular/equal	May be lower until maturity	Mainly interest
Outstanding principal	Gradually decreases	Remains largely outstanding until maturity	Remains largely outstanding
Common use	Retail/term loans	Certain specialized facilities	Certain specialized facilities

12. Simple Formula for Examination

For a standard monthly reducing-balance loan:

$$\boxed{EMI = P\frac{r(1+r)^n}{(1+r)^n - 1}}$$

Where:

P = Principal

r = Monthly rate of interest

n = Number of monthly instalments

In one sentence:

EMI is the periodic instalment, usually monthly, that combines repayment of principal and interest so that a standard amortizing loan is fully repaid over its agreed tenure.

Important Designations in a Bank

The exact titles vary by **bank, size, ownership, and organizational structure**. In India, public-sector, private-sector, cooperative and foreign banks may use different titles. Broadly, designations can be divided into **branch-level** and **head-office/corporate-office** positions.

1. Designations in a Bank Branch

A. Branch Management

1. **Branch Head / Branch Manager**
2. **Chief Manager – Branch**
3. **Senior Manager – Branch**
4. **Manager – Branch**
5. **Deputy Manager**
6. **Assistant Manager**

The Branch Manager is generally responsible for the overall functioning of the branch, including business development, customer service, operations, compliance, credit and staff supervision, according to the bank's structure.

B. Operations

7. **Operations Manager**
8. **Operations Officer**
9. **Branch Operations Officer**
10. **Cash Officer / Cash Manager**
11. **Teller / Cashier**
12. **Customer Service Officer**
13. **Customer Service Executive**
14. **Clerk / Banking Associate**
15. **Back-Office Officer**

C. Loans and Credit

16. **Credit Manager**
17. **Credit Officer**
18. **Loan Officer**
19. **Relationship Manager – Retail**
20. **Relationship Manager – MSME/Business**
21. **Credit Processing Officer**

D. Sales and Business Development

22. **Branch Sales Manager**
23. **Relationship Manager**
24. **Business Development Manager**
25. **Sales Officer**
26. **Personal Banker**
27. **Wealth Manager / Wealth Relationship Manager**

E. Specialist Roles

Depending on the branch and bank:

28. **Forex Officer**
29. **Agricultural Officer**
30. **Legal Officer**
31. **Recovery Officer**

32. **Security Officer**
33. **IT/Technical Support Officer**

2. Senior Designations at Regional/Zonal Level

Between branches and the head office, many banks have **regional, zonal or circle offices**.
Typical designations include:

1. **Regional Manager**
2. **Regional Head**
3. **Zonal Manager**
4. **Zonal Head**
5. **Circle Head**
6. **Deputy General Manager – Region/Zone**
7. **General Manager – Region/Zone**

These offices supervise multiple branches and coordinate business, operations, credit, compliance and administration.

3. Designations at Bank Head Office

The head office contains specialized departments such as **Finance, HR, Credit, Treasury, Risk, IT, Operations, Legal, Compliance, Marketing and Audit**.

A. Top Management

1. **Managing Director (MD)**
2. **Chief Executive Officer (CEO)**
3. **Executive Director (ED)**
4. **Whole-Time Director**, where applicable
5. **Deputy Managing Director (DMD)**
6. **Chief General Manager (CGM)**
7. **General Manager (GM)**
8. **Deputy General Manager (DGM)**
9. **Assistant General Manager (AGM)**

The precise hierarchy differs substantially among banks.

4. Finance Department

Important designations include:

1. **Chief Financial Officer (CFO)**
2. **Head – Finance**
3. **General Manager – Finance**
4. **Deputy General Manager – Finance**
5. **Chief Manager – Finance**
6. **Finance Manager**
7. **Financial Controller**
8. **Management Accountant**
9. **Accounts Manager/Officer**
10. **Tax Manager/Officer**

5. Operations Department

1. **Chief Operating Officer (COO)**
2. **Head – Operations**
3. **General Manager – Operations**
4. **Deputy General Manager – Operations**
5. **Chief Manager – Operations**
6. **Operations Manager**
7. **Operations Officer**
8. **Process Manager**
9. **Service Quality Manager**

6. Credit and Lending Department

1. **Chief Credit Officer (CCO)**
2. **Head – Credit**
3. **General Manager – Credit**
4. **Deputy General Manager – Credit**
5. **Chief Manager – Credit**
6. **Credit Manager**
7. **Credit Officer**
8. **Credit Analyst**
9. **Loan Processing Manager**
10. **Credit Risk Manager**

7. Risk Management

1. **Chief Risk Officer (CRO)**
2. **Head – Risk Management**
3. **General Manager – Risk**
4. **Chief Risk Manager**
5. **Credit Risk Manager**
6. **Market Risk Manager**
7. **Operational Risk Manager**
8. **Enterprise Risk Manager**
9. **Risk Analyst**

8. Compliance and AML/KYC

1. **Chief Compliance Officer (CCO)**
2. **Head – Compliance**
3. **Compliance Manager**
4. **Compliance Officer**
5. **AML Officer**
6. **KYC/Customer Due Diligence Officer**
7. **Principal Officer**, where applicable for AML purposes

9. Treasury and Investment

1. **Treasurer / Head – Treasury**
2. **Chief Treasury Manager**
3. **Treasury Manager**
4. **Treasury Dealer**
5. **Forex Dealer**
6. **Investment Manager**
7. **Market Risk Manager**
8. **ALM Manager**
9. **Treasury Operations Officer**

10. Information Technology and Digital Banking

1. **Chief Information Officer (CIO)**
2. **Chief Technology Officer (CTO)**
3. **Chief Digital Officer (CDO)**
4. **Head – IT**
5. **IT General Manager**
6. **IT Manager**
7. **Cybersecurity Head**
8. **Chief Information Security Officer (CISO)**
9. **Information Security Manager**
10. **Data/Analytics Head**
11. **Digital Banking Manager**

11. Human Resources

1. **Chief Human Resources Officer (CHRO)**
2. **Head – Human Resources**
3. **General Manager – HR**
4. **HR Manager**
5. **Recruitment Manager**
6. **Training & Development Manager**
7. **Employee Relations Manager**
8. **HR Officer**

12. Audit

1. **Chief Internal Auditor**
2. **Head – Internal Audit**
3. **General Manager – Audit**
4. **Chief Manager – Audit**
5. **Audit Manager**
6. **Internal Auditor**
7. **Concurrent Auditor**, where applicable
8. **Information Systems Auditor**

13. Legal Department

1. **Head – Legal**
2. **General Manager – Legal**
3. **Chief Manager – Legal**
4. **Legal Manager**
5. **Legal Officer**
6. **Legal Counsel**
7. **Recovery/Legal Officer**

14. Marketing and Business

1. **Chief Marketing Officer (CMO)**
2. **Head – Marketing**
3. **Head – Retail Banking**
4. **Head – Corporate Banking**
5. **Head – MSME Banking**
6. **Head – Wealth Management**
7. **Business Head**
8. **Product Head**
9. **Relationship Management Head**
10. **Sales Head**

15. Important Head-Office Functional Heads

A large bank may therefore have a structure broadly like this:

Board of Directors
↓
MD & CEO / Executive Management
↓
Executive Directors / Deputy Managing Directors
↓
Chief General Managers / General Managers
↓
Deputy General Managers
↓
Assistant General Managers
↓
Chief Managers
↓
Senior Managers / Managers
↓
Officers / Executives / Clerical Staff

Major functional heads

- **CFO** → Finance
- **COO** → Operations
- **CRO** → Risk
- **CIO/CTO** → Technology
- **CISO** → Information Security
- **CHRO** → Human Resources
- **Chief Compliance Officer** → Compliance
- **Chief Credit Officer** → Credit
- **Chief Internal Auditor** → Internal Audit
- **Head of Treasury** → Treasury
- **Head of Legal** → Legal
- **Chief Marketing Officer** → Marketing

16. Branch vs Head Office

Branch	Head Office
Branch Manager	MD & CEO
Operations Manager	COO
Credit Manager	Chief Credit Officer
Relationship Manager	Business/Vertical Head
Cash Officer	Head – Operations/Treasury
Customer Service Officer	Head – Customer Experience
Loan Officer	Credit Head
Sales Officer	Sales/Business Head
Branch Operations Officer	Operations Head
—	CFO
—	CRO
—	CIO/CTO
—	CHRO
—	CISO
—	Chief Compliance Officer
—	Chief Internal Auditor
—	Head – Legal

Important point

There is **no single universal designation hierarchy for all banks**. For example, one bank may use **Branch Manager**, another may use **Branch Head**, while senior management may be designated **General Manager, Executive Vice President, Senior Vice President, Chief General Manager**, etc.

For studying **Indian banking**, it is useful to understand both the **traditional public-sector hierarchy (Clerk → Officer → Manager → Chief Manager → AGM → DGM → GM → CGM → ED → MD/CEO)** and the **functional designation system used by many private-sector banks (RM → Manager → Senior Manager → AVP → VP → SVP → EVP → Business/Functional Head → CXO → MD/CEO)**.

Module 1 - General Banking
Chapter 5: Loans Advances: Retail Lending
5.1 Objectives
5.2 Introduction
5.3 Loans and Types of Loans
5.4 Retail Lending
5.5 Education Loans
5.6 Housing Loans
5.7 Overdrafts
5.8 Micro and Small Enterprises
5.9 Kisan Credit Card Scheme

Retail Banking and Other Types of Banking

1. Meaning of Retail Banking

Retail banking refers to banking services provided mainly to **individuals and small businesses** rather than large corporations, governments or financial institutions.

It is often called **consumer banking** or **personal banking**.

Retail banking deals with a large number of customers, usually with relatively smaller individual transactions compared with corporate or wholesale banking.

Simple definition

Retail banking is the provision of banking products and financial services to individual customers and small businesses.

2. Major Services of Retail Banking

A. Deposit Services

- Savings accounts
- Current accounts
- Fixed/term deposits
- Recurring deposits
- Salary accounts
- NRE/NRO accounts and other eligible non-resident products

B. Retail Loans

- Home loans
- Personal loans
- Vehicle loans
- Education loans
- Gold loans
- Consumer durable loans
- Loan against property
- Loan against eligible securities

C. Payment Services

- Debit cards
- Credit cards
- UPI
- NEFT
- RTGS
- IMPS
- Cheques
- Electronic fund transfers

D. Digital Banking

- Internet banking
- Mobile banking
- ATMs
- Digital account opening
- Mobile payments
- Digital customer service

E. Investment and Financial Services

Depending on the bank and applicable regulations:

- Mutual fund distribution
- Insurance distribution
- Demat/securities-related services
- Investment products
- Wealth-management services

3. Characteristics of Retail Banking

Characteristic	Explanation
Customer base	Individuals and small businesses
Number of customers	Usually very large
Transaction size	Generally smaller than corporate transactions
Products	Standardized and mass-market
Distribution	Branches + ATMs + digital channels
Revenue	Interest income, fees and service income
Technology	Highly technology-driven
Examples	Savings account, home loan, credit card, UPI

4. Other Types of Banking

Banking can be classified in several ways. The major types are:

A. Retail Banking

Customers: Individuals and small businesses

Examples:

- Savings accounts
- Personal loans
- Home loans
- Credit cards

B. Corporate Banking

Corporate banking provides financial services primarily to **companies and large business organizations**.

Services include:

- Business loans
- Working-capital finance
- Term loans
- Cash-credit facilities
- Overdrafts
- Trade finance
- Bank guarantees
- Letters of credit
- Cash management
- Corporate payment services

Example: A manufacturing company obtains a ₹100 crore working-capital facility from a bank.

C. Commercial Banking

Commercial banking broadly refers to banking services for **business and commercial activities**.

It can include financing for:

- Businesses
- Traders
- Manufacturers
- Service enterprises
- MSMEs
- Commercial projects

In many modern banks, **commercial banking and corporate banking overlap**, although corporate banking generally focuses more heavily on larger companies.

D. Wholesale Banking

Wholesale banking provides large-scale financial services to:

- Large corporations
- Governments
- Financial institutions
- Other banks
- Large institutional clients

Services may include:

- Large loans
- Structured finance
- Treasury
- Trade finance
- Cash management
- Institutional banking
- Syndicated loans

Retail vs Wholesale
Retail: Many customers × smaller individual transactions
Wholesale: Fewer customers × much larger transactions

E. Investment Banking
Investment banking is primarily concerned with **capital raising, securities and corporate financial transactions**, rather than conventional deposit-taking and retail lending.
Major activities include:

- Initial Public Offerings (IPOs)
- Debt issuance
- Equity issuance
- Mergers and acquisitions
- Corporate restructuring
- Underwriting
- Financial advisory
- Capital-market transactions

F. Private Banking
Private banking provides specialized financial services to **high-net-worth individuals (HNWIs) and wealthy clients**.
Services can include:

- Wealth management
- Investment management
- Portfolio advisory
- Estate-related planning
- Tax-related coordination
- Specialized banking services

It generally offers a **highly personalized service model**.

G. Universal Banking
Universal banking means a banking institution provides a **broad range of financial services** under one organizational structure or banking group, subject to applicable laws and regulations.
It can combine activities such as:

- Retail banking
- Corporate banking
- Investment-related services
- Wealth management
- Insurance distribution

- Payment services

H. Digital Banking

Digital banking refers to delivering banking services primarily through electronic and digital channels.

Examples:

- Mobile banking
- Internet banking
- Digital payments
- Digital account opening
- Online loan applications
- Video KYC, where applicable
- Digital customer service

Digital banking is more accurately understood as a **delivery model/channel** rather than always being a completely separate category of bank.

I. Islamic Banking

Islamic banking is based on principles derived from **Islamic financial jurisprudence**, including restrictions concerning interest (*riba*) and certain types of transactions.

It commonly uses structures such as:

- Profit-sharing
- Asset-backed financing
- Leasing
- Trade-based financing

Its availability depends on the country's legal and regulatory framework.

J. Cooperative Banking

Cooperative banks operate on cooperative principles and primarily serve their members and/or local communities, subject to the applicable regulatory framework.

Examples in India include:

- Urban Cooperative Banks
- State Cooperative Banks
- District Central Cooperative Banks
- Primary Agricultural Credit Societies in the cooperative credit structure

K. Development Banking

Development banks are institutions established to provide **long-term finance and support for economic development**.

They may focus on:

- Infrastructure
- Industry
- Agriculture
- MSMEs
- Exports
- Housing

Examples in the Indian financial system include institutions such as **NABARD, SIDBI, NHB and EXIM Bank**, each with specific mandates.

L. Merchant Banking

Merchant banking primarily provides **corporate financial and capital-market advisory services**.
Activities can include:

- Issue management
- Underwriting
- Corporate restructuring
- Mergers and acquisitions
- Corporate advisory
- Capital raising

M. Correspondent Banking

Correspondent banking is a banking relationship in which one bank provides services to another bank, particularly for:

- International payments
- Foreign exchange
- Trade transactions
- Clearing and settlement
- Cross-border transfers

The accounts commonly associated with correspondent banking include **Nostro and Vostro accounts**.

5. Comparison of Major Types

Type	Main Customers	Major Services
Retail Banking	Individuals, small businesses	Deposits, personal loans, cards
Commercial Banking	Businesses	Business loans, deposits, trade finance
Corporate Banking	Large companies	Large loans, cash management, trade finance
Wholesale Banking	Corporates, institutions, governments	Large-scale finance and financial services
Investment Banking	Corporates, institutional clients	Capital raising, M&A, underwriting
Private Banking	HNWIs	Wealth management and personalized banking
Universal Banking	Individuals + businesses + institutions	Broad range of banking/financial services
Digital Banking	Digital customers	Mobile/internet-based banking
Cooperative Banking	Members/local communities	Deposits, agricultural/business credit
Development Banking	Development sectors/institutions	Long-term development finance
Merchant Banking	Companies	Corporate advisory and issue management
Correspondent Banking	Banks	Cross-border banking and settlement

6. Easy Classification

A useful way to remember the major categories is:

Banking

→ **Retail Banking** — Individuals
→ **Commercial/Corporate Banking** — Businesses
→ **Wholesale Banking** — Large institutions
→ **Investment/Merchant Banking** — Capital markets & corporate finance
→ **Private Banking** — Wealthy clients
→ **Development Banking** — Economic/development finance
→ **Cooperative Banking** — Cooperative/member-oriented banking
→ **Digital Banking** — Digital delivery of banking services
→ **Correspondent Banking** — Bank-to-bank services

Key point

These categories **are not always mutually exclusive**. For example, a single large bank may simultaneously operate **retail, corporate, commercial, wholesale, treasury, wealth-management and digital-banking businesses**. Also, "digital banking" describes primarily **how banking services are delivered**, whereas "retail" or "corporate" describes **who the services are provided to**.

Meaning of Loans and Types of Loans in Banks

1. Meaning of a Loan

A **loan** is a financial facility under which a bank provides a specified amount of money to a borrower, who agrees to **repay the amount, generally with interest and applicable charges, according to an agreed repayment schedule**.

In simple terms:

Loan = Money advanced by a bank to a borrower, to be repaid with interest according to agreed terms.

The borrower may be an **individual, business, institution or other eligible entity**.

Main elements of a bank loan

1. **Lender** – the bank
2. **Borrower** – individual/business/institution
3. **Principal** – amount borrowed
4. **Interest** – cost of borrowing
5. **Tenure** – period for which the loan is granted
6. **Repayment** – method and schedule of repayment
7. **Security** – collateral/security, where required
8. **Purpose** – reason for borrowing
9. **Documentation** – loan agreement and related documents
10. **Credit assessment** – evaluation of the borrower's repayment capacity and risk

2. Types of Loans in Banks

Loans can be classified in several ways.

A. Classification According to Purpose

1. Personal Loan

A personal loan is generally an **unsecured loan** provided to an eligible individual for personal needs.

Examples:

- Medical expenses
- Marriage expenses
- Travel
- Household expenditure
- Other personal requirements

Usually, no specific physical collateral is required, though eligibility and terms vary.

2. Home/Housing Loan

A housing loan is provided for purposes such as:

- Purchase of a house
- Construction of a house
- Purchase of a residential property
- Renovation/repairs, depending on the product

The property may serve as security, subject to the loan terms.

3. Vehicle/Auto Loan

Used for purchasing:

- Cars
- Two-wheelers
- Commercial vehicles
- Other eligible vehicles

The vehicle commonly serves as security through an appropriate security arrangement.

4. Education Loan

Provided for eligible educational expenses such as:

- Tuition fees
- Books
- Examination fees
- Accommodation
- Other approved educational expenses

5. Agricultural Loan

Loans provided for agricultural and allied activities.

Examples:

- Crop finance
- Farm equipment
- Irrigation
- Dairy
- Poultry

- Fisheries
- Agricultural infrastructure

6. Business Loan
Loans provided to businesses for purposes such as:

- Expansion
- Purchase of machinery
- Working capital
- Business premises
- Inventory
- Other legitimate business requirements

7. MSME Loan
Financing provided to **Micro, Small and Medium Enterprises (MSMEs)**.
It may include:

- Working-capital finance
- Term loans
- Equipment finance
- Business expansion finance

8. Consumer Durable Loan
Financing for eligible consumer goods such as:

- Computers
- Televisions
- Refrigerators
- Washing machines
- Other household equipment

9. Gold Loan
A loan secured against **eligible gold jewellery or other permitted gold assets**, according to the bank's terms and applicable regulations.

10. Loan Against Property (LAP)
A loan secured against eligible immovable property.
The borrower mortgages or otherwise provides the property as security, subject to applicable law and documentation.

3. Classification According to Repayment/Structure

1. Term Loan

A **term loan** is granted for a specified period and normally has a defined repayment schedule.
It may be:

- Short-term
- Medium-term
- Long-term

Examples:

- Machinery purchase
- Business expansion
- Housing
- Infrastructure projects

2. Demand Loan

A **demand loan** is a loan repayable when demanded according to its terms.
It generally does not have the same fixed instalment structure as a conventional amortising term loan.

3. Installment Loan

The borrower repays the loan through **regular instalments**, such as monthly, quarterly or otherwise according to the agreement.
For many retail loans, the instalment may be an **EMI (Equated Monthly Instalment)**.

4. Bullet Loan

Under a **bullet repayment structure**, the principal is substantially repaid at the end of the agreed period, with interest paid according to the facility's terms.

4. Classification According to Security

A. Secured Loan

A secured loan is supported by **collateral/security**.
Examples:

- Home loan
- Vehicle loan
- Gold loan
- Loan against property

If the borrower defaults, the bank may have rights over the security according to the loan agreement and applicable law.

B. Unsecured Loan

An unsecured loan does not rely on specific physical collateral.
The bank primarily relies on:

- Borrower's income/cash flow
- Creditworthiness
- Repayment capacity
- Credit history
- Other eligibility criteria

Examples may include:

- Personal loans
- Certain credit facilities
- Certain credit cards

5. Classification According to Duration

1. Short-Term Loans

Generally used for relatively short-duration requirements.

Examples:

- Working capital
- Seasonal agricultural finance
- Short-term business requirements

2. Medium-Term Loans

Used for requirements with a medium repayment period.

3. Long-Term Loans

Used for long-duration financing.

Examples:

- Housing finance
- Large business projects
- Infrastructure-related finance

Note: The exact definition of short-, medium- and long-term varies according to the context and banking product.

6. Important Forms of Bank Credit

Not all bank credit is structured as a conventional lump-sum loan.

1. Cash Credit

A **cash-credit facility** allows an eligible borrower, particularly a business, to draw funds up to an approved limit, generally against specified security and subject to the terms of the facility.

Interest is generally based on the amount utilised/outstanding, according to applicable terms.

2. Overdraft

An **overdraft** allows a customer to withdraw more than the balance available in an account, up to an approved limit.

It is generally repayable according to the terms of the facility.

3. Bill Discounting

The bank provides funds against an eligible bill before its maturity, subject to applicable terms.

The bank receives the amount due when the bill is paid/matures, with the appropriate discount/charges.

4. Loan Against Securities

A bank may provide finance against eligible securities such as:

- Shares
- Bonds
- Other permitted financial securities

The securities serve as collateral subject to applicable rules.

7. Classification According to Borrower

1. Retail Loans

Given mainly to individuals.

Examples:

- Home loan
- Personal loan
- Vehicle loan
- Education loan

2. Business Loans

Given to:

- Small businesses
- Traders
- Professionals
- MSMEs

3. Corporate Loans

Given to larger companies for:

- Working capital
- Capital expenditure
- Expansion
- Projects
- Other corporate requirements

4. Institutional/Government Financing

Banks may also provide eligible financing to institutions and government-related entities subject to applicable laws, policies and regulatory requirements.

8. Special Types of Bank Loans

Other important categories include:

- **Working Capital Loan**
- **Project Finance**
- **Infrastructure Finance**
- **Export Finance**
- **Import Finance**
- **Trade Finance**
- **Staff Loans**
- **Bridge Loan**
- **Syndicated Loan**
- **Consortium Loan**
- **Loan Against Deposits**
- **Loan Against Securities**
- **Agricultural Term Loan**
- **Equipment Finance**

9. Loan vs. Advance

The terms **loan** and **advance** are sometimes used interchangeably, but in banking terminology they can have different practical meanings.

Loan

Usually refers to a specified amount advanced for a defined purpose and repayment structure.

Advance

Is a broader banking term that can include:

- Loans
- Cash credit
- Overdrafts
- Certain other credit facilities

Therefore:

Bank Advances = Loans + Cash Credit + Overdraft + Other eligible credit facilities

10. Loan Classification — Quick Table

Basis	Types
Purpose	Personal, Housing, Vehicle, Education, Agricultural, Business, MSME
Security	Secured, Unsecured
Duration	Short-term, Medium-term, Long-term
Repayment	Term, Demand, Installment, Bullet
Borrower	Retail, Business, Corporate, Institutional
Mode of credit	Loan, Cash Credit, Overdraft, Bill Discounting
Collateral	Property, Vehicle, Gold, Securities, Deposits, etc.
Special financing	Working Capital, Project, Infrastructure, Trade, Export

11. Basic Loan Process
Loan application
↓
KYC & customer verification
↓
Credit appraisal
↓
Assessment of income/cash flow & repayment capacity
↓
Security/collateral evaluation, where applicable
↓
Sanction
↓
Documentation
↓
Disbursement
↓
Monitoring
↓
Repayment
↓
Closure

Key point
A bank does not decide whether to lend merely by looking at the **security offered**. The fundamental question is whether the borrower has adequate **repayment capacity and a legitimate purpose**, while the bank also considers risk, liquidity, profitability, regulatory requirements and appropriate security where applicable.

Documents Required to Avail a Bank Loan
There is **no single universal list of documents that is mandatory for every bank loan**. The documents depend on the **type of borrower, type and purpose of loan, amount, security/collateral, income source and the bank's applicable policy and regulatory requirements**.
For a typical loan in India, the following documents are commonly required.
1. Identity and KYC Documents
Usually required to establish the identity of the borrower:

- PAN or Form 60, where applicable
- Aadhaar or another officially valid document (OVD)
- Passport
- Driving license
- Voter's identity card
- NREGA job card signed by a State Government official
- National Population Register letter containing name and address

The exact KYC document requirements depend on applicable RBI KYC rules.

2. Address/Residence Proof

Where not adequately established through the KYC document, the bank may require appropriate address documentation, such as:

- Utility bill
- Passport
- Driving license
- Voter ID
- Other permitted proof of address

3. Income Documents

These establish **repayment capacity**.

For salaried applicants, banks may ask for:

- Salary slips
- Bank statements
- Form 16
- Income-tax return, where applicable
- Employment-related documents, where required

For self-employed/business applicants:

- Income-tax returns
- Audited financial statements, where applicable
- Profit and loss account
- Balance sheet
- Business bank statements
- GST-related records, where applicable
- Business registration documents

4. Bank Account Statements

Recent bank statements may be required to verify:

- Income
- Existing EMIs
- Regular expenses
- Existing loans
- Account conduct
- Cash flows

The required period varies by bank and loan product.

5. Loan Application and Declaration

The borrower normally needs to submit:

- Loan application form
- Photograph, where required
- Customer declarations
- Consent/authorization for verification and credit checks
- Details of existing loans and liabilities

6. Credit-Related Information

The bank may obtain and evaluate information from credit information companies and other permitted sources to assess the applicant's creditworthiness.

7. Documents for Secured Loans

If the loan is secured, additional documents relating to the collateral are required.

For a Home/Property Loan

Depending on the transaction, documents may include:

- Title deed
- Sale deed
- Agreement to sell
- Previous title documents
- Encumbrance-related documents
- Approved building plan
- Property tax receipts
- Possession/occupancy documents, where applicable
- Valuation report
- Legal/title verification documents

The exact documents depend heavily on the property and transaction.

For a Vehicle Loan

Commonly:

- Vehicle quotation/proforma invoice
- Registration-related documents
- Insurance documents
- Proof of down payment, where applicable

For a Gold Loan

The bank will require the **eligible gold/security itself** and documents required for identification, ownership/pledge and the loan transaction according to its policy and applicable rules.

For Loan Against Securities

The bank may require:

- Details of securities
- Demat/holding statements
- Pledge documentation
- Other security-related documents

8. Documents for Business/Corporate Loans

Businesses may need additional documentation.

Proprietorship

- KYC of proprietor
- Business proof/registration
- Income-tax returns
- Financial statements, where applicable
- Bank statements
- GST records, where applicable
- Business-related licenses

Partnership Firm

- Partnership deed
- Registration documents, where applicable
- KYC of partners
- Financial statements
- Income-tax returns
- Authority/mandate for borrowing

Company

- Certificate of incorporation
- Memorandum and Articles of Association
- PAN
- Board resolution/authorization
- KYC of authorized persons/directors as applicable
- Financial statements
- Income-tax returns
- Bank statements
- GST and other applicable registrations
- Shareholding/ownership information where required

LLP

- Certificate of incorporation/registration
- LLP agreement
- PAN
- KYC of designated partners
- Financial statements
- Tax returns
- Authorization for borrowing
- Other applicable business documents

9. Documents Relating to the Purpose of the Loan

The bank may require documents proving how the loan will be used.
Examples:

Loan	**Possible supporting document**
Home loan	Property documents, sale agreement
Vehicle loan	Dealer quotation
Education loan	Admission/offer letter, fee structure
Business loan	Business plan, financial statements
Machinery loan	Machinery quotation
Construction loan	Building plan, estimates and approvals
Working-capital finance	Stock/receivable and financial information
Project finance	Project report, financial projections and approvals

10. Security and Guarantee Documents

Where applicable, the bank may require:

- Mortgage documents
- Hypothecation agreement
- Pledge agreement
- Assignment documents
- Guarantee agreement
- Personal guarantee
- Corporate guarantee
- Security/charge creation documents
- Insurance policies relating to secured assets

11. Loan Agreement and Other Legal Documents

After sanction, the borrower may have to execute documents such as:

- Loan agreement
- Demand promissory note, where applicable
- Sanction letter/acceptance
- Security documents
- Hypothecation/mortgage documents
- Guarantee documents
- Repayment mandate
- Other declarations and undertakings

The documents vary according to the type of facility.

12. Important Point: "Mandatory" vs. "Normally Required"

It is important not to treat every document on a bank's checklist as universally mandatory.

Generally essential

KYC/identity + application + relevant financial information + loan-specific documents + security/legal documents where applicable

Conditional

Documents relating to:

- Collateral
- Guarantors
- Business registration
- GST
- Property
- Vehicle
- Education
- Project approvals

are required **only when relevant to the particular loan**.

For example, a borrower seeking an unsecured personal loan would not normally need property title documents.

13. Minimum Conceptual Checklist

A useful examination answer is:

Loan Application
↓
KYC/Identity & Address
↓
PAN/Tax information as applicable
↓
Income & Financial Documents
↓
Bank Statements
↓
Purpose-specific Documents
↓
Collateral/Security Documents, if applicable
↓
Guarantee Documents, if applicable
↓
Loan Agreement & Other Legal Documents
↓
Disbursement

In summary

The **most important documents for loan appraisal** establish four things:

1. **Who is the borrower?** → KYC documents
2. **Can the borrower repay?** → Income/financial documents
3. **Why is the money required?** → Purpose-related documents
4. **What security is available?** → Collateral/security documents, where applicable

The bank then performs its **credit appraisal, verification, documentation and sanction process** before disbursing the loan.

If you are studying **Indian banking law/practice**, I can also give you a **loan-wise list of documents (personal loan, home loan, vehicle loan, education loan, gold loan, MSME loan, corporate loan, etc.)** in an examination-ready table.

Retail Lending

Retail lending refers to the provision of loans and other credit facilities by banks primarily to **individual customers, households and, in some cases, small businesses**.

It is an important part of a bank's retail banking business and generates income mainly through **interest and permitted fees/charges**.

Major Retail Lending Activities of Banks

1. Housing Finance

Banks provide finance for:

- Purchase of a house or flat
- Construction of a house
- Purchase of residential plots, where permitted
- Home renovation/repairs
- Home extension
- Balance transfer/takeover of eligible home loans

2. Personal Loans

Unsecured or appropriately structured loans for eligible personal requirements, such as:

- Medical expenses
- Marriage expenses
- Travel
- Household requirements
- Other personal purposes

3. Vehicle Loans

Finance for:

- Cars
- Two-wheelers
- Commercial vehicles, depending on the bank's classification
- New and used vehicles, subject to eligibility

4. Education Loans

Finance for eligible:

- Undergraduate education
- Postgraduate education
- Professional courses
- Technical courses
- Studies in India or abroad

5. Consumer Durable Loans

Finance for purchasing eligible consumer products such as:

- Computers
- Televisions
- Refrigerators
- Washing machines
- Other household appliances

6. Gold Loans

Loans against eligible **gold jewellery or other permitted gold assets**, subject to the bank's policies and applicable regulations.

7. Loan Against Property

Loans secured against eligible residential or commercial property for permitted purposes.

8. Loan Against Deposits

Banks may provide loans or overdraft facilities against eligible:

- Fixed/term deposits
- Other permitted deposits

The deposit serves as security.

9. Loan Against Securities

Credit facilities may be provided against eligible:

- Shares
- Bonds
- Government securities
- Mutual fund units
- Other permitted securities

10. Credit Card Lending

Banks provide revolving credit through credit cards.

Customers may use the credit facility for:

- Purchases
- Online transactions
- Point-of-sale transactions
- Cash withdrawals, where permitted

Outstanding balances are subject to applicable interest/charges according to the card terms.

11. Overdraft Facilities

Eligible customers may receive an overdraft facility allowing them to withdraw funds up to an approved limit.

Examples can include overdrafts against:

- Deposits
- Salary/income
- Securities
- Other eligible security

12. Personal Vehicle/Two-Wheeler Finance

This is often treated as a separate retail product category within vehicle lending and includes financing for:

- Motorcycles
- Scooters
- Electric two-wheelers
- Other eligible personal vehicles

13. Retail Business/MSME Lending

Depending on the bank's classification, retail/commercial lending may include credit to small businesses and self-employed persons for:

- Working capital
- Equipment purchase
- Business expansion
- Shop/business premises
- Professional activities

14. Consumer Credit

Banks may provide various forms of consumer credit for eligible personal consumption and household requirements.

15. Retail Working-Capital Facilities

Eligible small businesses may receive:

- Cash credit
- Overdraft
- Working-capital loans
- Other short-term credit facilities

Retail Lending Process

A typical retail lending process is:

Customer Application
↓
KYC & Customer Verification
↓
Credit Bureau/Credit History Check
↓
Income & Repayment Capacity Assessment
↓
Loan Appraisal
↓
Security/Collateral Assessment, if applicable
↓
Credit Decision & Sanction
↓
Documentation
↓
Disbursement
↓
EMI/Repayment
↓
Monitoring & Recovery
↓
Loan Closure

Classification of Retail Lending

Category	Examples
Housing loans	Home purchase, construction, renovation
Personal loans	Personal consumption/requirements
Vehicle loans	Cars, two-wheelers
Education loans	Higher/professional education
Gold loans	Loans against eligible gold
Consumer loans	Consumer durables
Loan against property	Secured finance against property
Loan against securities	Finance against eligible securities
Loan against deposits	Finance against eligible deposits
Credit cards	Revolving consumer credit
Retail overdrafts	Approved overdraft facilities
Small-business lending	MSME/self-employed credit

Key Characteristics of Retail Lending

- **Large number of borrowers**
- **Relatively smaller individual loan amounts** compared with large corporate lending
- Standardized products and processes
- Technology-based credit appraisal and processing
- Credit-score and income-based assessment
- EMI-based repayment is common
- Both secured and unsecured products
- Extensive use of branches and digital channels
- Portfolio-based risk management

Retail Lending vs Corporate Lending

Retail Lending	Corporate Lending
Individuals/households	Companies/institutions
Many borrowers	Relatively fewer borrowers
Smaller individual exposures	Larger individual exposures
Standardized products	Often customized facilities
Automated/digital processing common	Detailed financial and project appraisal
Home, personal, vehicle loans	Working capital, term loans, project finance
EMI repayment common	Various repayment structures

In short: Retail lending is the bank's **credit business aimed primarily at individuals and households**, covering housing, personal, vehicle, education, gold, consumer and other retail credit products, together with certain small-business lending depending on the bank's classification.

Types of Lending in Banks

Bank lending means the process by which a bank provides funds or credit facilities to eligible borrowers with an obligation to repay the amount according to agreed terms, generally with interest and applicable charges.
Bank lending can be classified on several bases.

1. Lending Based on the Nature of Credit Facility

1. Term Loan

A specified amount is sanctioned for a specified period and repaid according to an agreed schedule.
Examples: Home loans, machinery loans, business expansion loans.

2. Demand Loan

A loan repayable on demand according to the terms of the facility.

3. Cash Credit

A working-capital facility under which an eligible borrower can draw funds up to an approved limit, subject to the terms and security requirements.

4. Overdraft

Permits an eligible customer to withdraw beyond the available balance up to an approved limit.

5. Bill Discounting/Purchase

The bank provides funds against eligible bills before their maturity, subject to applicable terms.

6. Letter of Credit

The bank provides a payment undertaking to a beneficiary on behalf of its customer, subject to the conditions of the letter of credit.

7. Bank Guarantee

The bank undertakes to make payment to the beneficiary if the customer fails to meet specified obligations, subject to the guarantee's terms.

2. Lending Based on Purpose

A. Personal/Retail Lending

Loans to individuals for personal and household requirements:

- Personal loans
- Home loans
- Vehicle loans
- Education loans
- Gold loans
- Consumer loans
- Loan against property
- Loan against securities

B. Agricultural Lending

Finance for:

- Crop production
- Farm equipment
- Irrigation
- Dairy
- Fisheries
- Poultry
- Other eligible agricultural and allied activities

C. Business/MSME Lending

Finance for:

- Working capital
- Machinery
- Business expansion
- Inventory
- Receivables
- Business premises

D. Corporate Lending

Finance to larger companies for:

- Working capital
- Capital expenditure
- Expansion
- Acquisitions
- Projects
- Infrastructure

E. Trade Finance

Finance supporting domestic and international trade, including:

- Import finance
- Export finance
- Letters of credit
- Bills
- Guarantees
- Working-capital facilities

F. Project Finance

Long-term financing for projects such as:

- Infrastructure
- Power
- Roads
- Manufacturing
- Other large projects

3. Lending Based on Security

A. Secured Lending

Credit supported by specified collateral/security.

Examples:

- Home loan against property
- Vehicle loan against the vehicle
- Gold loan against eligible gold
- Loan against securities

Common forms of security

- **Mortgage**
- **Hypothecation**
- **Pledge**
- **Lien**
- **Assignment**

B. Unsecured Lending
Credit granted without specific physical collateral, based primarily on the borrowers:

- Income/cash flow
- Creditworthiness
- Credit history
- Repayment capacity
- Other eligibility factors

Examples: Many personal loans and certain credit-card facilities.

4. Lending Based on Duration
1. Short-Term Lending
Generally, for relatively short-duration requirements.
Examples:

- Working capital
- Seasonal business requirements
- Certain agricultural finance

2. Medium-Term Lending
For requirements with a medium repayment period.
3. Long-Term Lending
For longer-duration requirements.
Examples:

- Housing
- Machinery
- Infrastructure
- Large projects

The precise duration classifications depend on the relevant banking/product context.

5. Lending Based on Borrower

Type	**Main Borrowers**
Retail lending	Individuals and households
Agricultural lending	Farmers and agricultural businesses
MSME lending	Micro, small and medium enterprises
Commercial lending	Businesses and commercial enterprises
Corporate lending	Large companies
Institutional lending	Eligible institutions
Government-related lending	Eligible government/public-sector entities

6. Lending Based on Repayment

A. EMI/Instalment Lending

The borrower makes regular instalments containing principal and interest.

Common in:

- Home loans
- Vehicle loans
- Personal loans
- Education loans

B. Bullet Repayment

The principal is substantially repaid at maturity, with interest handled according to the facility's terms.

C. Revolving Credit

The borrower can draw, repay and redraw within an approved limit, subject to the facility's terms.

Examples: Cash credit, overdraft and credit-card facilities.

7. Lending Based on Pricing

1. Fixed-Rate Lending

The interest rate remains fixed for the agreed period, subject to the loan terms.

2. Floating-Rate Lending

The interest rate changes according to a specified benchmark/reference mechanism and the applicable spread.

8. Lending Based on Relationship

Direct Lending

The bank directly provides credit to the borrower.

Consortium Lending

Two or more banks jointly finance a borrower/project under an agreed arrangement.

Syndicated Lending

A group of lenders provides a large loan under common financing documentation, usually with an arranging/lead bank.

9. Special Forms of Lending

Other important forms include:

- **Bridge finance**
- **Export credit**
- **Import finance**
- **Warehouse/receivables finance**
- **Loan against deposits**
- **Loan against securities**
- **Loan against property**
- **Staff loans**
- **Priority-sector lending**
- **Green/sustainable finance**
- **Microfinance-related lending**

10. Complete Classification at a Glance

Bank Lending

→ **By facility**
- Term loan
- Demand loan
- Cash credit
- Overdraft
- Bill discounting
- Letter of credit
- Bank guarantee

→ **By purpose**
- Retail
- Agriculture
- MSME
- Commercial
- Corporate
- Trade
- Project finance

→ **By security**
- Secured
- Unsecured

→ **By duration**
- Short-term
- Medium-term
- Long-term

→ **By repayment**
- Instalment/EMI
- Bullet
- Revolving

→ **By pricing**
- Fixed
- Floating

→ **By lenders**
- Single-bank lending
- Consortium lending
- Syndicated lending

Important distinction

Loan is one form of lending. **Lending is the broader concept** and can include loans, cash credit, overdrafts, bill finance and certain contingent/credit facilities such as letters of credit and guarantees.

In examination terms: the major types of bank lending are **term loans, demand loans, cash credit, overdrafts, bill financing, secured and unsecured lending, retail lending, agricultural lending, MSME/commercial lending, corporate lending, trade finance and project finance.**

Education Loans from Banks: Applicant and Bank Perspective

An **education loan** is a credit facility provided by a bank to finance eligible higher/professional education expenses of a student. It is designed to allow a student to pursue education when the student/family cannot or does not want to meet the entire cost from their own resources.
From the **applicant's perspective**, the key questions are: *Am I eligible? How much can I borrow? What documents are needed? What will I repay and when?*
From the **bank's perspective**, the key questions are: *Is the student/course/institution eligible? Can the loan be repaid? What is the risk? What security and documentation are appropriate?*

Part I — Education Loan from the Applicant's Point of View
1. Purpose of an Education Loan
An education loan may finance eligible expenses connected with:

- Tuition/academic fees
- Examination fees
- Library/laboratory fees
- Hostel charges
- Books and study materials
- Equipment/computer required for the course
- Travel expenses for eligible overseas education
- Other approved education-related expenses

The precise expenses covered depend on the bank's product and applicable rules.

2. Who Can Apply?
The primary beneficiary is normally the **student**.
Depending on the product and bank's policy, the loan application may involve:
Student
The student is generally the principal borrower/beneficiary.
Parent/Guardian
A parent or guardian may be required as:

- Co-borrower
- Joint borrower
- Financial sponsor/supporting party

Spouse/Other co-borrower
Depending on the applicant's circumstances and bank policy, another eligible person may sometimes participate as co-borrower.

3. Eligibility
Banks generally consider:
Academic eligibility

- Admission to an eligible course
- Admission to an eligible educational institution
- Academic record
- Course duration
- Recognition/accreditation of the institution/course, as applicable

Financial eligibility

The bank may assess:

- Family income
- Existing liabilities
- Repayment capacity
- Credit history
- Financial contribution from the family/student

Other factors

- Age
- Citizenship/residency requirements
- Course location
- Employability prospects
- Nature of the institution
- Loan amount requested

Important: Admission to a course does not automatically mean that a bank must approve the loan.

4. Courses Commonly Financed

Depending on the bank and applicable scheme, education loans can cover:

India

- Undergraduate programmes
- Postgraduate programmes
- Engineering
- Medicine
- Management
- Law
- Technology
- Professional courses
- Other recognised higher-education programmes

Abroad

- Undergraduate programmes
- Postgraduate programmes
- Professional programmes
- Other eligible higher-education courses

The bank will determine whether the particular **course and institution meet its lending criteria**.

5. Amount of Education Loan

The loan amount depends on:

- Total cost of education
- Course fees
- Living/hostel expenses
- Travel expenses, where eligible
- Student/family contribution
- Repayment capacity
- Bank's product limits
- Security requirements

The applicant should distinguish between:

Total education cost ≠ Loan amount
For example:
Total course cost = ₹20 lakh
Student/family contribution = ₹4 lakh
Proposed bank finance = ₹16 lakh
The actual structure depends on the bank's terms.

6. Margin Money
Margin money is the portion of the education cost that the borrower/student/family is expected to contribute rather than finance entirely through the bank.
For example:
Total eligible cost = ₹10 lakh
Margin = 10%
Applicant's contribution = ₹1 lakh
Bank finance = ₹9 lakh
The applicable margin depends on the loan scheme and bank policy.

7. Interest Rate
Education loans generally carry interest at a rate determined according to the bank's applicable pricing system.
The rate may be:

- Fixed, where the product provides for it
- Floating/benchmark-linked

The applicant should check:

- Benchmark/reference rate
- Spread
- Effective interest rate
- Interest calculation method
- Frequency of interest application
- Concessions, if any
- Whether the rate can change during the loan period

8. Interest During Study Period
Many education loans provide a **moratorium period** during which regular principal repayment does not begin.
However, **moratorium does not necessarily mean that interest stops accruing**.
Depending on the loan terms:
Interest may accrue during the study/moratorium period.
The applicant should therefore ask the bank:
"Is interest payable during the moratorium, and if not paid, how is it treated?"

9. Moratorium Period

The moratorium commonly covers:

Course period + specified period after completion of the course

The precise period depends on the loan scheme.

During the moratorium:

- Principal repayment may be deferred.
- Interest may continue to accrue.
- The borrower may have an option/obligation to service interest according to the terms.

10. Repayment

After the moratorium, the borrower normally begins repayment according to the agreed schedule.

Repayment may be through:

- EMIs
- Monthly instalments
- Other agreed repayment structures

Example

Course period = 4 years

Moratorium = course period + 1 year

Repayment period = 10 years

The student may begin regular principal repayment after the applicable moratorium.

11. Documents Required from the Applicant

A bank may require:

Student documents

- Loan application
- Identity/KYC documents
- Address proof
- PAN/Form 60, where applicable
- Passport, particularly for overseas education
- Academic certificates
- Mark sheets
- Entrance examination results, where relevant
- Admission/offer letter
- Course details
- Fee structure

Parent/co-borrower documents

- KYC documents
- Income proof
- Salary slips, where applicable
- Income-tax returns, where applicable
- Bank statements
- Employment/business proof

For overseas education

Additional documents may include:

- University admission letter
- Fee schedule
- Passport
- Visa-related documents when available/required
- Foreign exchange/remittance-related information
- Estimated living expenses
- Other documents required by the bank

Security documents

If collateral is required:

- Property documents
- Security valuation documents
- Title documents
- Mortgage/security documents
- Guarantee documents

12. Security/Collateral

Education loans may be:

Unsecured

No specific collateral is taken, subject to eligibility and applicable scheme/bank policy.

Secured

Collateral may be required above specified thresholds or according to the particular scheme.

Possible security:

- Residential property
- Land/building
- Fixed deposit
- Government securities
- Other eligible assets

The exact security requirement varies by bank and applicable education-loan scheme.

13. Co-Borrower

A **co-borrower** is an individual who joins the loan agreement and shares contractual responsibility for repayment.

Parents are commonly involved in education-loan applications, particularly when the student has little or no independent income.

The applicant should understand that a co-borrower is **not merely a reference person**; their legal/financial responsibility depends on the loan documentation.

14. Credit Score

The bank may examine the credit history of:

- Student, where a credit history exists
- Parent/co-borrower
- Other relevant borrowers

A strong credit history can support credit assessment, while adverse repayment history may affect the bank's decision.

15. Disbursement

Education loans are often **disbursed according to the educational institution's fee schedule**, rather than paying the entire sanctioned amount immediately.

For example:

Sanction ₹15 lakh

Year 1 → ₹4 lakh
Year 2 → ₹4 lakh
Year 3 → ₹4 lakh
Year 4 → ₹3 lakh

The actual schedule depends on the bank and institution.

16. Applicant's Costs

The applicant should consider more than the interest rate.

Potential costs include:

- Processing fee
- Documentation charges
- Legal/valuation charges for collateral, where applicable
- Insurance, if applicable
- Applicable taxes
- Other permitted charges

The applicant should ask for the **Key Facts Statement (KFS), where applicable**, and the complete schedule of charges before accepting the loan.

17. Applicant's Rights and Responsibilities

Rights

The applicant should receive clear information about:

- Interest rate
- Loan amount
- Repayment schedule
- Moratorium
- Fees and charges
- Security requirements
- Important terms and conditions
- Consequences of default

Responsibilities

The borrower should:

- Provide truthful information
- Submit genuine documents
- Use funds for the approved purpose
- Maintain required insurance/security arrangements
- Make repayments on time
- Inform the bank about material changes where required
- Maintain adequate repayment arrangements

Part II — Education Loan from the Bank's Point of View

18. Why Banks Give Education Loans

For the bank, education lending can provide:

- Interest income
- Long-term customer relationships
- Future retail banking customers
- Cross-selling opportunities
- Support for financial inclusion and education
- Portfolio diversification

But the bank must balance these benefits against **credit risk**.

19. Bank's Credit Appraisal

The bank evaluates several factors.

A. Student's academic record

- Previous academic performance
- Entrance examination performance
- Course quality
- Institution reputation

B. Course

The bank may examine:

- Duration
- Recognition
- Professional value
- Employment prospects
- Total cost

C. Institution

The bank considers:

- Recognition/accreditation where applicable
- Reputation
- Fee structure
- Admission status

D. Repayment prospects

A crucial question is:

Will the student's expected future income and/or co-borrower's financial capacity support repayment?

20. Bank's Assessment of Co-Borrower

The bank may examine:

- Income
- Employment
- Existing liabilities
- Credit history
- Financial stability
- Age
- Repayment capacity

This is particularly important because students may have little current income.

21. Bank's Risk Assessment

Major risks include:

1. Credit risk

Student/co-borrower fails to repay.

2. Employment/income risk

The student's expected employment or income may not materialise.

3. Course/institution risk

The student may discontinue the course or fail to complete it.

4. Documentation risk

Admission, identity or security documentation may be incomplete or inaccurate.

5. Fraud risk

False admission letters, forged documents or misrepresentation can create risk.

6. Collateral risk

Where secured, the value or legal enforceability of collateral may be affected.

7. Overseas education risk

For international education, additional considerations can include:

- Foreign exchange
- Cross-border payments
- Visa issues
- Institution/country risk
- Higher living expenses

22. Bank's Loan Sanction Process

A typical process is:

Application
↓
KYC verification
↓
Admission/course verification
↓
Academic assessment
↓
Co-borrower financial assessment
↓
Credit bureau check
↓
Cost and margin assessment
↓
Collateral/security assessment, if applicable
↓
Credit appraisal
↓
Sanction/rejection
↓

Documentation
↓
Disbursement
↓
Monitoring
↓
Repayment & closure

23. Bank's Documentation
The bank creates and maintains records such as:

- Loan application
- KYC records
- Admission documents
- Academic records
- Income documents
- Credit appraisal
- Sanction letter
- Loan agreement
- Security documents
- Guarantee/co-borrower documents
- Disbursement records
- Repayment records
- Correspondence
- Monitoring records

24. Monitoring After Disbursement
The bank does not simply sanction and forget the loan.
It may monitor:

- Whether the student remains enrolled
- Course progress
- Fee payments
- Disbursement requirements
- Interest servicing
- Repayment
- Changes in borrower circumstances
- Security documentation
- Delinquency/default

25. Default from Bank's Perspective
If the borrower does not make payments according to the loan terms, the account can become overdue.
Continued default can result in:

- Collection efforts
- Applicable charges/consequences under the loan terms
- Credit information reporting
- Restructuring/resolution where appropriate and permitted

- Enforcement of security in secured loans, according to law and applicable procedures
- Classification as a non-performing asset (NPA) when applicable regulatory conditions are met

26. Applicant vs Bank Perspective

Applicant's Perspective	Bank's Perspective
Need finance for education	Need to assess credit risk
Wants adequate loan amount	Determines eligible amount
Wants affordable interest	Prices risk and cost of funds
Wants long repayment period	Assesses appropriate tenure
Wants moratorium	Assesses repayment structure
Wants minimal collateral	Determines security requirement
Wants quick approval	Must complete due diligence
Wants flexible repayment	Must protect asset quality
Wants funds for fees/living costs	Verifies eligible expenses
Wants low charges	Charges applicable costs
Wants future financial support	Seeks repayment and sustainable relationship

27. Example

Suppose a student is admitted to a professional Programme.

Total estimated cost

Expense	Amount
Tuition fees	₹12 lakh
Hostel	₹3 lakh
Books/equipment	₹1 lakh
Other eligible expenses	₹1 lakh
Total	**₹17 lakh**

Suppose the bank determines:

- Eligible loan = ₹15 lakh
- Student/family contribution = ₹2 lakh
- Interest = as per applicable loan terms
- Moratorium = course period + specified period
- Repayment = after moratorium according to agreed schedule

Applicant sees:

"I need ₹15 lakh to complete my education."

Bank sees:

"Can this student/co-borrower repay ₹15 lakh plus interest, and are the course, institution, documents and security satisfactory?"

This difference in perspective is fundamental to banking.

28. Advantages to the Student

- Access to higher education

- Reduces immediate financial burden on family
- Allows payment of eligible education expenses
- Repayment can generally be deferred during the applicable moratorium
- Builds financial/credit history when repayments are made properly
- May enable education in India or abroad

29. Disadvantages/Risks to the Student

- Interest increases total repayment cost
- Long repayment period can create a substantial financial obligation
- Employment may not materialize as expected
- Course discontinuation does not necessarily eliminate the loan liability
- Default can adversely affect credit history
- Secured loans may expose pledged/mortgaged assets to enforcement according to applicable law if the borrower defaults

30. Advantages to the Bank

- Interest income
- Expansion of retail credit portfolio
- Long-term relationship with educated young customers
- Potential future customers for:
    - Savings accounts
    - Credit cards
    - Home loans
    - Investments
    - Insurance distribution
    - Wealth-management services

31. Risks to the Bank

The bank must carefully manage:

Credit risk + employment risk + course risk + documentation risk + fraud risk + operational risk + collateral risk + concentration risk

Therefore, education lending is not simply based on **"the student has admission, so the bank must lend."**

32. Important Terms to Remember

Term	Meaning
Applicant	Person applying for the loan
Student borrower	Student receiving the educational benefit
Co-borrower	Person sharing contractual borrowing responsibility
Principal	Amount financed
Margin	Borrower's contribution toward eligible cost
Interest	Cost of borrowing
Moratorium	Period during which scheduled principal repayment is deferred according to the loan terms
Tenure	Total agreed repayment period
Collateral	Property/asset provided as security, where applicable
Sanction	Bank's approval of the credit facility
Disbursement	Release of sanctioned funds
EMI	Equated Monthly Instalment
Default	Failure to meet contractual repayment obligations
NPA	Loan account classified as non-performing according to applicable regulatory criteria

33. Complete Education Loan Framework

From Applicant's Point of View

Course selection

→ Admission
→ Calculate total education cost
→ Determine own contribution
→ Select bank
→ Submit application
→ KYC & documents
→ Credit assessment
→ Understand interest/moratorium
→ Understand security & co-borrower obligations
→ Accept sanction
→ Execute documents
→ Receive disbursement
→ Complete education
→ Begin repayment
→ Pay EMIs
→ Close loan

From Bank's Point of View

Receive application
→ Verify KYC
→ Verify admission/course/institution
→ Assess student
→ Assess co-borrower
→ Assess cost and margin
→ Assess repayment capacity
→ Check credit history
→ Assess collateral where applicable
→ Conduct credit appraisal
→ Sanction/reject
→ Execute documentation
→ Disburse according to requirements
→ Monitor account
→ Recognize income appropriately
→ Monitor overdue/default status
→ Recovery/resolution where required
→ Close loan after full repayment

Core principle
An education loan is ultimately a **credit transaction based on the bank's assessment of repayment capacity and risk**, while the applicant must evaluate the **total cost of education, total borrowing cost, repayment obligation and future ability to repay** before accepting the facility.
Housing Loans from Banks — Applicant and Bank Perspective
A **housing loan/home loan** is a credit facility provided by a bank to an eligible borrower for an approved housing-related purpose, such as purchasing, constructing, extending or renovating a residential property, subject to the bank's product terms and applicable regulations.
A housing loan should be understood from **two perspectives**:

- **Applicant's perspective:** affordability, eligibility, property, interest, EMI, documents, security and repayment.
- **Bank's perspective:** creditworthiness, property/title, security, repayment capacity, risk, documentation, regulatory compliance and recovery.

PART I — HOUSING LOAN FROM THE APPLICANT'S POINT OF VIEW

1. Purpose of a Housing Loan

A housing loan may be used for eligible purposes such as:

1. Purchase of a ready-built house/flat
2. Purchase of an under-construction property
3. Construction of a house
4. Purchase of a residential plot, where the product permits it
5. Home extension
6. Home renovation/repairs
7. Reconstruction
8. Balance transfer/takeover of an existing eligible home loan

The exact purposes financed vary by bank and product.

2. Who Can Apply?

Depending on the bank's eligibility criteria, applicants may include:

- Salaried individuals
- Self-employed individuals
- Professionals
- Business owners
- Resident Indians
- Eligible Non-Resident Indians (NRIs)
- Other eligible individuals

A housing loan can sometimes be taken jointly.

Joint Home Loan

Two or more eligible persons may apply together, subject to the bank's policy.

For example:

Spouse A + Spouse B → Joint Housing Loan

A joint application may help with eligibility where both applicants have acceptable income and credit profiles.

3. Basic Eligibility

Banks commonly consider:

Applicant's age

The bank considers:

- Minimum age
- Maximum age at loan maturity
- Remaining working/earning period

Income

The bank assesses:

- Salary
- Business income
- Professional income
- Other acceptable income sources

Employment/business stability

The bank may consider:

- Length of employment
- Nature of employment
- Employer/business stability
- Continuity of income

Credit history

The bank may examine the applicant's credit report and repayment history.

Existing liabilities

Examples:

- Personal loans
- Vehicle loans
- Credit-card obligations
- Other EMIs

Property

The property must generally satisfy the bank's legal, technical and security requirements.

4. Loan Amount

The applicant should distinguish:

Property price ≠ Housing loan amount

Suppose:

Property price = ₹60 lakh

The bank may finance only a specified proportion subject to its applicable loan-to-value and product criteria.

The applicant therefore needs to arrange:

- Margin/down payment
- Stamp duty and registration expenses
- Other transaction expenses
- Charges not financed by the bank

Example

Property cost = ₹60 lakh

Applicant's own contribution = ₹15 lakh

Bank loan = ₹45 lakh

This is only an illustration; actual eligibility depends on the bank and applicable rules.

5. Down Payment / Margin

The amount paid by the applicant from their own funds is commonly referred to as:

- Down payment
- Margin
- Borrower's contribution

A higher own contribution generally means a lower loan requirement.

6. Interest Rate

Housing loans may be offered at:

Fixed interest rate

The rate remains fixed for the agreed period, subject to the product terms.

Floating interest rate

The rate is linked to a specified benchmark/reference mechanism and applicable spread.

The applicant should understand:

- Benchmark
- Spread
- Interest rate
- Reset frequency
- EMI implications
- Total interest cost

7. EMI

Housing loans are commonly repaid through **Equated Monthly Instalments (EMIs)**.

Each EMI generally consists of:

Principal component + Interest component

At the beginning of a standard amortizing loan:

Interest component is relatively higher

Later:

Principal component becomes relatively higher

8. Loan Tenure

Housing loans often have relatively long repayment periods.

A longer tenure generally:

- Reduces monthly EMI
- Increases total interest paid over the life of the loan

A shorter tenure generally:

- Increases monthly EMI
- Reduces total interest, assuming the same rate and other conditions

Therefore, the applicant should consider **total repayment cost**, not merely the EMI.

9. Moratorium / Pre-EMI

For certain construction or under-construction situations, repayment may operate differently from a fully disbursed ready-property loan.

Pre-EMI

During staged construction disbursements, the borrower may pay interest on the amount actually disbursed until regular EMI repayment begins, depending on the loan structure.

For example:

Sanctioned = ₹50 lakh

But only ₹15 lakh has been disbursed.

Pre-EMI interest may be calculated with reference to the amount actually disbursed, according to the loan terms.

10. Documents Required from Applicant

A. Identity/KYC

- PAN/Form 60, where applicable
- Aadhaar or other officially valid document
- Passport, where applicable
- Address proof
- Photographs, where required

B. Income Documents — Salaried Person

- Salary slips
- Bank statements
- Form 16
- Income-tax documents, where applicable
- Employment details

C. Income Documents — Self-Employed

- Income-tax returns
- Financial statements
- Profit and loss account
- Balance sheet
- Business bank statements
- GST-related documents, where applicable
- Business registration documents, where applicable

D. Property Documents

Depending on the transaction:

- Agreement to sell
- Sale deed
- Title documents
- Previous title deeds
- Encumbrance-related documents
- Approved building plan
- Property tax receipts
- Completion/occupancy documents, where applicable
- Possession documents
- Valuation report
- Other documents required for legal/title verification

11. Property Verification

The applicant should expect the bank to conduct two major types of property assessment.

Legal verification

The bank examines whether:

- The seller has appropriate title
- The title is legally acceptable
- There are disclosed/identified encumbrances
- Required approvals exist
- Documents are genuine and consistent

Technical valuation

The bank may assess:

- Property value
- Construction
- Location
- Physical condition
- Building specifications
- Marketability
- Compliance with applicable requirements

12. Security — Mortgage

The property financed is generally used as security through an appropriate **mortgage/security arrangement**, subject to applicable law and documentation.

Thus:

Bank → provides loan

Borrower → provides property as security

If the borrower defaults, the bank may have rights to enforce the security according to applicable law and due process.

13. Insurance

Depending on the product and circumstances, insurance may be relevant to:

- Property
- Fire/natural perils
- Other risks

Borrowers should distinguish between **property insurance and optional/additional insurance products** and understand what is actually required under the loan terms.

14. Charges Associated with Home Loans

The applicant should check all costs, not just the interest rate.

Possible charges include:

- Processing fee
- Legal verification fee
- Valuation fee
- Documentation charges
- Mortgage-related charges
- Stamp duty
- Registration charges
- Applicable taxes
- Other permitted charges

The bank should disclose applicable charges according to the relevant regulatory and contractual requirements.

15. Prepayment / Foreclosure

A borrower may wish to:

- Make a part-prepayment
- Fully repay the loan early
- Transfer the loan to another lender

The consequences depend on the type of interest rate, borrower category, loan terms and applicable regulations. The applicant should obtain the bank's current **prepayment/foreclosure terms** before deciding.

16. Applicant's Responsibilities

The borrower should:

- Provide accurate information
- Submit genuine documents
- Make the required down payment
- Use the loan for the approved purpose
- Pay EMIs on time
- Maintain the property/security as required
- Maintain applicable insurance
- Inform the bank of material changes where required
- Pay applicable taxes and property-related obligations
- Preserve title/property documents

PART II — HOUSING LOAN FROM THE BANK'S POINT OF VIEW

17. Why Does a Bank Give Housing Loans?

Housing loans are an important retail-credit product because they can provide:

- Interest income
- Long-term customer relationships
- Secured lending
- Portfolio diversification
- Cross-selling opportunities

However, housing loans involve substantial **credit, legal, property and market risks**.

18. Bank's Credit Appraisal

The bank evaluates the applicant using several factors.

A. Character/Credit history

- Credit report
- Previous repayment behaviour
- Existing defaults
- Existing credit obligations

B. Capacity

The bank asks:

Can the borrower comfortably repay the proposed loan?

It examines:

- Income
- Expenses
- Existing EMIs
- Debt obligations
- Employment/business stability

C. Capital

The applicant's own contribution is considered.

A borrower contributing significant own funds has a lower financing requirement.

D. Collateral

The bank assesses:

- Property value
- Title
- Marketability
- Legal enforceability
- Quality of security

E. Conditions

The bank may consider:

- Economic conditions
- Property market
- Interest-rate environment
- Employment/business conditions

19. Loan-to-Value (LTV)

Loan-to-Value (LTV) compares the loan amount with the value of the property/security for applicable purposes.

$$LTV = \frac{\text{Loan Amount}}{\text{Property Value}} \times 100$$

Example:

Property value = ₹50 lakh

Loan = ₹40 lakh

$$LTV = \frac{40}{50} \times 100 = 80\%$$

Applicable LTV limits and calculation methodology depend on the relevant regulatory framework and loan category.

20. Bank's Property Appraisal

The bank normally wants to ensure:

Legal safety

Is the bank obtaining a legally enforceable security interest?

Technical safety

Is the property physically and technically acceptable?

Financial safety

Is the property value sufficient relative to the loan?

Marketability

Could the property reasonably be sold if recovery becomes necessary?

21. Bank's Risks in Housing Loans

1. Credit Risk

Borrower fails to repay.

2. Interest-Rate Risk

Changes in rates can affect borrower affordability and bank profitability.

3. Property-Value Risk

Property value may decline.

4. Legal/Title Risk

The borrower may not have clear or marketable title.

5. Construction Risk

For under-construction properties:

- Delays
- Non-completion
- Regulatory issues
- Developer problems

may create additional risk.

6. Fraud Risk

Examples:

- Forged property documents
- False income documents
- Identity fraud
- Inflated property valuations
- Misrepresentation

7. Concentration Risk

Excessive exposure to a particular:

- Geographic area
- Developer
- Property type
- Customer segment

can increase risk.

22. Sanction Process

A typical bank process is:
Application
↓
KYC verification
↓
Income verification
↓
Credit bureau check
↓
Repayment capacity assessment
↓
Property legal verification
↓
Technical valuation
↓
LTV/margin assessment
↓
Credit appraisal
↓
Sanction
↓
Documentation
↓
Mortgage/security creation
↓
Disbursement
↓
Monitoring
↓
Repayment

23. Sanction Letter
The bank's sanction communication generally specifies important terms such as:

- Sanctioned amount
- Interest rate
- Benchmark, where applicable
- Tenure
- Repayment structure
- EMI
- Security
- Conditions precedent
- Applicable fees/charges
- Insurance requirements, where applicable
- Other conditions

The borrower should carefully read the sanction terms before acceptance.

24. Documentation and Security Creation

Before disbursement, the bank ensures completion of required documentation.
This may include:

- Loan agreement
- Sanction acceptance
- Mortgage/security documents
- Property documents
- Insurance documents, where required
- Undertakings/declarations
- Co-borrower/guarantor documents, where applicable

The exact documents vary by property and loan structure.

25. Disbursement

Housing-loan disbursement depends on the type of property.

Ready property

The bank may disburse the approved amount according to the transaction requirements.

Under-construction property

Funds may be released **in stages**, based on construction progress and applicable conditions.

Self-construction

Disbursement may similarly be linked to construction stages.

26. Monitoring by the Bank

After disbursement, the bank monitors:

- EMI payments
- Outstanding principal
- Interest
- Insurance/security requirements
- Construction progress where relevant
- Changes in account status
- Delinquencies/defaults

27. What Happens if the Borrower Defaults?

If the borrower fails to repay:
Overdue EMI
↓
Follow-up/reminders
↓
Collection measures
↓
Account classification according to applicable regulatory norms
↓
Resolution/restructuring where appropriate and permitted
↓
Enforcement of security, where legally applicable
↓
Recovery proceedings
For secured loans, enforcement of the mortgage/security is subject to **applicable law and prescribed legal procedures**.

PART III — APPLICANT VS BANK

Applicant's Perspective	Bank's Perspective
Wants a house	Wants a safe lending opportunity
Needs maximum affordable finance	Determines eligible loan amount
Wants low interest	Prices credit and funding risk
Wants long tenure	Assesses appropriate repayment period
Wants low EMI	Assesses affordability and repayment capacity
Wants minimal documentation	Requires adequate due diligence
Wants minimal collateral requirements	Requires enforceable security where applicable
Wants quick approval	Must verify income, identity and property
Wants funds quickly	Disburses only after conditions are satisfied
Wants flexible repayment	Protects asset quality
Wants easy prepayment	Applies applicable contractual/regulatory terms
Wants ownership of property	Creates/maintains security interest until obligations are discharged

PART IV — COMPLETE HOUSING LOAN LIFE CYCLE

Applicant Side
Identify property
↓
Check affordability
↓
Arrange margin/down payment
↓
Select bank
↓
Submit application
↓
KYC & income documents
↓
Property documents
↓
Credit appraisal
↓
Legal & technical verification
↓
Sanction
↓
Documentation
↓
Mortgage/security creation
↓
Disbursement
↓
EMI repayment
↓
Prepayment, if desired
↓
Full repayment
↓
Release of security/title documents
Bank Side
Receive application
↓
Customer identification/KYC
↓
Credit assessment
↓
Income verification
↓
Credit history assessment
↓

Property legal due diligence
↓
Property valuation
↓
LTV/margin assessment
↓
Risk assessment
↓
Sanction/rejection
↓
Documentation
↓
Security creation
↓
Disbursement
↓
Loan monitoring
↓
Interest/repayment accounting
↓
Delinquency management, if necessary
↓
Full repayment
↓
Release of security

PART V — Important Terms

Term	Meaning
Housing Loan	Credit facility for an eligible housing purpose
Principal	Amount borrowed
Margin/Down payment	Borrower's own contribution
Interest	Cost of borrowing
EMI	Periodic instalment containing principal and interest
Tenure	Agreed repayment period
LTV	Loan amount compared with property value
Mortgage	Security interest over property
Co-borrower	Person sharing contractual borrowing responsibility
Sanction	Bank's approval of the loan
Disbursement	Release of loan funds
Pre-EMI	Interest payment on amounts disbursed before regular EMI repayment in applicable structures
Foreclosure/Prepayment	Early repayment of the loan
NPA	Loan classified as non-performing according to applicable regulatory criteria
Collateral	Asset provided as security
Amortization	Gradual repayment of principal through scheduled payments

Most Important Points for an Applicant

Before taking a housing loan, the borrower should look beyond the advertised interest rate and examine:

1. Total property cost
2. Own contribution/down payment
3. Loan amount
4. Interest rate and benchmark
5. EMI
6. Total interest over the entire tenure
7. Processing and other charges
8. Prepayment terms
9. Legal status/title of the property
10. Mortgage/security obligations
11. Insurance requirements
12. Consequences of missed payments
13. Terms applicable if interest rates change
14. Release of title/security documents after repayment

Core principle

From the **applicant's perspective**, a housing loan should be treated as a **long-term financial commitment**, not merely as a means of obtaining a house.
From the **bank's perspective**, it is a **secured credit exposure** in which the bank must establish the borrower's repayment capacity, verify the property and title, create enforceable security, comply with applicable regulations, and continuously manage credit risk.

Overdraft and Cash Credit — Applicant and Bank Perspective
Overdraft (OD) and **Cash Credit (CC)** are important forms of **working-capital/revolving credit facilities** provided by banks. Both allow an eligible borrower to draw funds up to an approved limit rather than receiving the entire facility as a conventional term loan.
Although they are similar, they are **not identical**.
Overdraft: Usually linked to an account and permits withdrawals beyond the available balance, up to an approved limit.
Cash Credit: Primarily a working-capital facility, generally used by businesses to finance day-to-day operating requirements against eligible security and drawing-power conditions.

PART I — OVERDRAFT (OD)
1. Meaning of Overdraft
An **overdraft** is a credit facility under which a bank permits an eligible customer to withdraw more money than the credit balance available in the account, up to a sanctioned limit.
Example
Customer's account balance:
₹50,000
Sanctioned OD limit:
₹2,00,000
The customer may draw funds beyond ₹50,000, subject to the terms, up to the permitted limit.
If the customer draws ₹1,50,000 beyond available funds, interest is generally calculated on the amount outstanding/utilized, according to the facility's terms.

2. Purpose of Overdraft
An OD may be used for:
- Temporary cash shortages
- Working-capital requirements
- Business expenses
- Emergency liquidity requirements
- Salary/income-linked facilities
- Overdraft against fixed deposits
- Overdraft against securities
- Other purposes permitted by the bank

3. Types of Overdrafts

A. Secured Overdraft
Supported by eligible security.
Examples:

- OD against fixed deposit
- OD against securities
- OD against property
- OD against other eligible collateral

B. Unsecured Overdraft
Granted without specific collateral, based on:

- Income
- Creditworthiness
- Account conduct
- Repayment capacity
- Bank's policy

C. Temporary Overdraft
Provided for a short-term/temporary requirement, subject to bank approval.
D. Salary/Personal Overdraft
Provided to eligible individuals based on salary/income and bank policy.

PART II — CASH CREDIT (CC)
4. Meaning of Cash Credit
Cash credit is a revolving working-capital facility, generally provided to businesses, under which the borrower can draw funds up to an approved limit subject to the terms of the facility.
The facility is commonly secured by eligible current assets such as:

- Stock/inventory
- Receivables/book debts

and may also involve additional security, depending on the bank's assessment.

5. Purpose of Cash Credit
Cash credit is primarily used to finance **working capital**.
Examples:

- Purchase of raw materials
- Inventory
- Wages
- Electricity bills
- Supplier payments
- Operating expenses
- Receivables cycle
- Day-to-day business requirements

Example
A business has: **Approved CC limit = ₹50 lakh**
The business may draw:
₹10 lakh → repay → ₹5 lakh → draw ₹15 lakh → repay, etc.
This revolving use continues within the sanctioned terms and available drawing power.

6. Drawing Power in Cash Credit

One of the most important concepts in CC is **Drawing Power (DP)**.

The borrower may have a sanctioned limit of ₹50 lakh, but may not always be permitted to draw the full ₹50 lakh.

The permissible amount can depend on:

- Eligible stock
- Eligible receivables
- Margin requirements
- Exclusions/ageing of receivables
- Other applicable conditions

Illustration

Eligible stock = ₹60 lakh

Eligible receivables = ₹40 lakh

Total eligible current assets = ₹1 crore

If the applicable margin is 25%:

$$DP = ₹1crore \times 75\% = ₹75lakh$$

If sanctioned limit is ₹50 lakh:

Available drawing = lower of applicable DP and sanctioned limit = ₹50 lakh

The actual calculation depends on the bank's lending arrangement and applicable regulatory requirements.

PART III — OVERDRAFT VS CASH CREDIT

Basis	Overdraft	Cash Credit
Main purpose	Short-term liquidity/various purposes	Working capital
Typical users	Individuals and businesses	Mainly businesses
Account linkage	Usually linked to an account	Usually a separate CC facility/account
Security	Secured or unsecured	Often secured by current assets/additional security
Drawing	Up to sanctioned OD limit	Up to sanctioned limit and applicable drawing power
Repayment	Flexible within facility terms	Revolving within facility terms
Interest	Generally, on amount outstanding/utilized	Generally, on amount outstanding/utilized
Primary focus	Liquidity	Working-capital financing
Stock statements	Usually not central to ordinary OD	Often important for CC secured by stock/receivables
Drawing Power	Generally, not the defining feature	Important feature in many CC arrangements

PART IV — APPLICANT'S POINT OF VIEW

7. Who Can Apply?

Depending on the facility:

Individuals

- Salaried persons
- Professionals
- Eligible account holders
- Customers with eligible deposits/securities

Businesses

- Proprietorships
- Partnerships
- LLPs
- Companies
- Other eligible business entities

8. Applicant's Eligibility

The bank may consider:

- Income/cash flow
- Credit history
- Account conduct
- Existing liabilities
- Business turnover
- Profitability
- Working-capital cycle
- Financial statements
- Security/collateral
- Purpose of borrowing

For businesses, the bank may also assess:

- Stock
- Receivables
- Payables
- Inventory turnover
- Debtor ageing
- Business cycle

9. Documents Required

For an Individual OD

Common documents may include:

- Loan/OD application
- KYC documents
- PAN/Form 60 where applicable
- Income proof
- Salary slips, where applicable
- Bank statements
- Credit information
- Security documents, where applicable

For Business CC

Common documents may include:

- KYC of business and relevant persons
- Business constitution documents
- Financial statements
- Income-tax returns
- GST records, where applicable
- Bank statements
- Stock statements
- Receivables/debtor statements
- Business projections
- Existing borrowing details
- Property/security documents
- Insurance documents where applicable

The exact list varies by bank, facility and borrower.

10. Security for OD

Depending on the facility, security may include:

Fixed Deposit

FD → lien/charge → OD facility

For example:

FD = ₹10 lakh

OD limit = ₹8 lakh

The exact margin and limit are determined by the bank.

Securities

- Shares
- Bonds
- Mutual fund units
- Other eligible securities

Property

- Residential property
- Commercial property
- Other eligible immovable property

Guarantee

A bank may require a guarantee depending on the borrower and facility.

11. Security for Cash Credit

Cash credit may be secured by:

Primary security

- Stock
- Inventory
- Book debts/receivables

Collateral security

Additional security may include:

- Property
- Fixed deposits
- Securities
- Guarantees

The exact security structure depends on the credit appraisal.

12. Interest on OD and CC

Interest is generally calculated with reference to the **amount outstanding/utilized**, rather than automatically charging interest on the entire sanctioned limit.

Example:

CC limit = ₹20 lakh

Actual outstanding = ₹8 lakh

Interest is generally calculated on the applicable outstanding amount, according to the bank's calculation method.

Important

The borrower should distinguish:

Sanctioned limit ≠ amount actually utilized

13. Charges

Depending on the product, the bank may levy applicable:

- Processing fees
- Documentation charges
- Renewal/review charges
- Legal charges
- Valuation charges
- Inspection charges
- Other permitted charges

The borrower should review the applicable schedule of charges and loan terms.

PART V — BANK'S POINT OF VIEW

14. Why Does the Bank Provide OD/CC?

OD

Provides customers with flexible short-term liquidity while generating interest income.

CC

Provides working-capital finance to businesses and generates interest income while supporting the customer's operating cycle.

15. Bank's Credit Appraisal

The bank examines:

A. Character

- Credit history
- Past repayment behaviour
- Account conduct
- Business reputation

B. Capacity

- Income
- Cash flows
- Turnover
- Ability to service interest and obligations

C. Capital

- Net worth
- Capital contribution
- Financial strength

D. Collateral

- Value
- Legal validity
- Marketability
- Enforceability

E. Conditions

- Industry conditions
- Economic environment
- Business cycle
- Market conditions

16. Working-Capital Assessment

For a business seeking CC, the bank may analyze:

Operating cycle

Raw materials → Production → Finished goods → Sales → Receivables → Cash

The bank determines how much working capital is required to bridge this cycle.

17. Drawing Power Monitoring

For a secured CC facility, the bank may periodically obtain:

- Stock statements
- Receivables statements
- Debtor ageing
- Other financial information

The bank calculates the applicable **Drawing Power**.
If eligible current assets decline, the available drawing power may also decline.

18. Bank's Risk in OD

1. Credit risk

Customer fails to repay.

2. Liquidity risk

Large withdrawals can increase the bank's liquidity requirements.

3. Fraud risk

Examples:

- Fake invoices
- False stock statements
- Diversion of funds
- Manipulated receivables

4. Collateral risk

Security may be insufficient or difficult to enforce.

5. Concentration risk

Excessive exposure to one borrower/industry can increase risk.

19. Bank's Risk in Cash Credit

Important risks include:

- Stock deterioration
- Inflated stock values
- Obsolete inventory
- Fake receivables
- Receivable concentration
- Diversion of funds
- Declining sales
- Business failure
- Inadequate margin
- Drawing beyond permissible drawing power

20. Monitoring of OD/CC

The bank monitors:

- Account turnover
- Outstanding balance
- Interest servicing
- Credit utilization
- Credits entering the account
- Stock statements
- Receivables
- Financial statements
- Business performance
- Security
- Insurance
- Compliance with sanction conditions

21. Renewal/Review

Many working-capital facilities are subject to **periodic review or renewal**.

The bank may reassess:

- Business performance
- Turnover
- Profitability
- Working-capital requirement
- Drawing power
- Credit history
- Security
- Account conduct

The bank may:

- Continue the limit
- Increase the limit
- Reduce the limit
- Modify conditions
- Decline renewal

22. Default

If the borrower fails to meet obligations:

Overdue/irregular account

↓

Bank monitoring and follow-up

↓

Corrective action/resolution where appropriate

↓

Classification according to applicable regulatory norms

↓

Recovery/enforcement where legally applicable

For secured facilities, the bank can enforce security subject to applicable law and prescribed procedures.

PART VI — OD AND CC ACCOUNTING

23. From the Bank's Accounting Perspective

When the customer draws funds:
Customer's borrowing increases → Bank records a credit exposure/loan asset
When the customer deposits money:
Outstanding exposure decreases
Interest accrued/charged is recorded according to applicable accounting and regulatory requirements.

24. Example — OD

Suppose:
OD limit = ₹5 lakh
Customer draws:
₹2 lakh
Interest is generally based on the applicable outstanding amount, subject to the facility's terms.
Customer later deposits:
₹1 lakh
Outstanding becomes:
₹1 lakh
The customer may subsequently draw again within the available limit.
This makes OD a **revolving credit facility**.

25. Example — Cash Credit

Business has:
CC limit = ₹50 lakh
Eligible drawing power = ₹40 lakh
Therefore, the borrower can generally draw only up to:
₹40 lakh
If the borrower has drawn ₹25 lakh:
Available drawing capacity = ₹15 lakh, subject to the facility terms and available DP.
If eligible stock/receivables fall and DP becomes ₹20 lakh:
Permissible drawing may fall to ₹20 lakh.

PART VII — ADVANTAGES AND DISADVANTAGES

Applicant's Advantages
OD

- Flexible withdrawals
- Interest generally linked to amount outstanding
- Useful for temporary liquidity requirements
- Revolving facility

CC

- Suitable for working capital
- Flexible utilization
- Borrower can draw according to business needs
- Interest generally based on utilization/outstanding

Applicant's Risks

- Interest rates can be significant
- Facility may have renewal/review requirements
- Excessive borrowing can create financial stress
- Security may be at risk in secured facilities if obligations are not met
- Irregular conduct can affect credit standing
- Business borrowers may face reduced drawing power if eligible current assets decline

PART VIII — BANK VS APPLICANT

Applicant	**Bank**
Needs liquidity	Provides credit
Wants flexible withdrawals	Controls sanctioned limit
Wants low interest	Prices risk
Wants minimal security	Protects exposure
Wants continued availability	Monitors account conduct
Wants higher limit	Assesses repayment capacity
Wants easy renewal	Reassesses creditworthiness
Uses funds for business/personal needs	Ensures permitted purpose
Wants flexible repayment	Controls risk and asset quality

PART IX — OD AND CC LIFE CYCLE

Overdraft
Application
↓
KYC
↓
Credit assessment
↓
Income/account assessment
↓
Security assessment, if applicable
↓
Sanction
↓
Documentation
↓
OD account/facility activation
↓
Withdrawal
↓
Interest calculation
↓
Repayment/deposit
↓
Monitoring
↓
Renewal/closure
Cash Credit
Business application
↓
KYC & constitution verification
↓
Financial analysis
↓
Working-capital assessment
↓
Stock/receivables assessment
↓
Security evaluation
↓
Sanction
↓
Documentation
↓
Drawing Power determination
↓

Disbursement/withdrawal
↓
Stock & receivable monitoring
↓
Interest calculation
↓
Periodic review/renewal
↓
Repayment/closure

Key Differences to Remember
Overdraft
"I need flexible access to money beyond my available account balance."
Cash Credit
"My business needs a revolving working-capital facility to finance inventory and receivables."
One-line examination answer
Overdraft is a revolving credit facility that permits an eligible customer to draw beyond the available account balance up to a sanctioned limit, whereas cash credit is primarily a revolving working-capital facility under which a business can draw funds up to the sanctioned limit and applicable drawing power, generally against eligible current assets and other security.
MSME Loans from Banks
MSME lending refers to the provision of credit and other financial facilities by banks to **Micro, Small and Medium Enterprises (MSMEs)** for business establishment, working capital, expansion, equipment, technology, trade and other legitimate business requirements.
In India, MSME lending is particularly important because MSMEs contribute significantly to **employment, production, exports, entrepreneurship and regional economic development**.

1. Meaning of MSME
MSME = Micro, Small and Medium Enterprises.
Under India's current MSME classification, enterprises are classified using **investment in plant and machinery/equipment and annual turnover**.

Category	Investment limit	Annual turnover limit
Micro	Up to ₹2.5 crore	Up to ₹10 crore
Small	Up to ₹25 crore	Up to ₹100 crore
Medium	Up to ₹125 crore	Up to ₹500 crore

These criteria apply from **1 April 2025** following the revised classification announced by the Government of India.

2. Who Can Obtain MSME Finance?

Banks may finance eligible:

- Sole proprietorships
- Partnership firms
- LLPs
- Private/public companies
- One Person Companies
- Certain cooperative enterprises
- Other eligible business entities

Examples of MSME borrowers:

- Manufacturing units
- Traders
- Service providers
- Retail businesses
- Restaurants
- Small factories
- Workshops
- IT/service businesses
- Professional enterprises
- Start-ups meeting applicable criteria
- Export-oriented small businesses

3. Purposes of MSME Loans

MSME finance can be used for:

A. Working Capital

To finance:

- Raw materials
- Inventory
- Wages
- Electricity
- Supplier payments
- Receivables
- Day-to-day operating expenses

B. Fixed Assets

For purchasing:

- Machinery
- Equipment
- Computers
- Vehicles, where eligible
- Factory equipment
- Business premises, where eligible

C. Business Expansion

- Increasing production capacity
- Opening a new branch/unit
- Modernization
- Diversification

D. Technology Upgradation

- New machinery
- Automation
- Software
- Digital systems
- Modern production technology

E. Trade Finance

- Purchase of goods
- Import/export transactions
- Letters of credit
- Bank guarantees
- Bill finance

F. Start-up/Business Establishment

Finance may be available for eligible new businesses subject to the bank's credit policy.

4. Major Types of MSME Bank Loans

1. Term Loan

A fixed amount is provided for a specified period and repaid according to an agreed schedule.

Used for:

- Machinery
- Equipment
- Expansion
- Construction
- Capital expenditure

2. Cash Credit

A revolving working-capital facility.
The borrower can draw funds up to:
Sanctioned limit + applicable drawing power
subject to the terms of the facility.

3. Overdraft

A flexible credit facility allowing the borrower to withdraw funds up to an approved limit.
It may be secured or unsecured depending on the product.

4. Working Capital Loan

A loan specifically designed to meet short-term business requirements.

5. Machinery/Equipment Finance

Finance for acquiring:

- Plant
- Machinery
- Equipment
- Technology

6. Invoice/Receivable Finance
Finance against eligible invoices or receivables.
This helps an MSME obtain cash before customers actually make payment.

7. Bill Discounting
The bank provides funds against eligible bills before maturity, subject to applicable terms.

8. Trade Finance
Includes facilities such as:

- Letters of credit
- Bank guarantees
- Import finance
- Export finance
- Bills

9. Loan Against Property
A secured loan against eligible property, subject to the bank's terms.

10. Digital MSME Loans
Banks increasingly use digital systems for:

- Application
- Data verification
- Credit assessment
- Sanction
- Documentation
- Disbursement

5. Secured and Unsecured MSME Loans
A. Secured MSME Loan
Supported by security/collateral.
Examples:

- Property
- Machinery
- Inventory
- Receivables
- Fixed deposits
- Other eligible assets

B. Unsecured MSME Loan

No specific physical collateral is taken, subject to the product and eligibility.
The bank relies more heavily on:

- Cash flows
- Credit history
- Business performance
- Income
- Banking transactions
- Other credit-assessment parameters

6. Collateral and Credit Guarantee

An important feature of MSME lending in India is the availability of **credit guarantee mechanisms** for eligible borrowers.
For qualifying loans, a credit guarantee can provide the lending institution with specified protection against credit losses, subject to the scheme's conditions.
One important mechanism is **CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)**.
The availability and extent of guarantee depend on:

- Borrower eligibility
- Loan type
- Amount
- Bank participation
- Scheme conditions

Important: A credit guarantee does **not** mean the borrower is released from the obligation to repay the loan.

7. Documents Required

Banks commonly require:

A. Business Documents

- Business registration/constitution documents
- PAN
- GST registration, where applicable
- Udyam Registration details, where applicable
- Partnership deed, if partnership
- LLP agreement, if LLP
- Certificate of incorporation and constitutional documents, if company

B. KYC

- Identity proof
- Address proof
- PAN/Form 60, where applicable
- KYC of proprietor/partners/directors/authorized persons as required

C. Financial Documents

- Income-tax returns
- Balance sheet
- Profit and loss statements
- Cash-flow information
- Bank statements
- GST returns/data, where applicable

D. Business Documents

- Business plan
- Project report
- Sales information
- Stock statements
- Debtors/receivables statements
- Supplier details
- Purchase orders, where relevant

E. Security Documents

Where applicable:

- Property title documents
- Valuation reports
- Mortgage documents
- Hypothecation documents
- Guarantee documents
- Insurance documents

8. MSME Loan Application Process

Business applies
↓
KYC verification
↓
Business/enterprise verification
↓
Credit bureau checks
↓
Financial analysis
↓
Cash-flow assessment
↓
Working-capital assessment
↓
Collateral assessment, if applicable
↓
Credit appraisal
↓
Sanction
↓
Documentation
↓
Security creation, where applicable
↓
Disbursement
↓
Monitoring
↓
Repayment/renewal

9. Bank's Credit Appraisal of an MSME

The bank generally asks five fundamental questions.

1. Who is the borrower?

- Ownership
- Management
- Business experience
- Constitution
- KYC

2. What does the business do?

- Industry
- Products/services
- Customers
- Suppliers
- Competition

3. Is the business financially sound?

The bank may examine:

- Sales
- Profit
- Cash flow
- Assets
- Liabilities
- Net worth
- Working capital

4. Can the business repay?

The bank evaluates:

- Debt-servicing capacity
- Cash flow
- Existing debt
- Proposed debt
- Interest burden

5. What happens if repayment fails?

The bank considers:

- Primary security
- Collateral
- Guarantees
- Credit guarantee coverage, where applicable
- Legal enforceability
- Recovery prospects

10. Working-Capital Assessment

For an MSME, the bank studies the **operating cycle**:
Purchase raw materials
↓
Production
↓
Finished goods
↓
Sales
↓
Receivables
↓
Collection of cash
The longer this cycle, the greater the working-capital requirement may be.
Example
An MSME needs:

- Inventory = ₹40 lakh
- Receivables = ₹30 lakh
- Cash/other current assets = ₹10 lakh

Current operating assets = **₹80 lakh**
The business may need bank finance after considering:

- Own contribution
- Trade creditors
- Margin
- Drawing power
- Other applicable requirements

11. Interest Rate
MSME loans may have:

- Fixed rates
- Floating/benchmark-linked rates

The applicable rate depends on:

- Credit risk
- Business profile
- Loan type
- Security
- Tenure
- Bank's cost of funds
- Benchmark
- Borrower's relationship/profile
- Applicable regulatory requirements

12. Repayment

Repayment depends on the type of facility.
Term loan
Usually through:
EMIs/instalments
Cash credit
Usually revolves through:
Draw → use → deposit/repay → redraw
subject to the sanctioned terms and drawing power.
Overdraft
Usually allows:
Withdraw → repay → redraw
within the approved limit and terms.

13. Bank Monitoring of MSME Loans
After lending, the bank monitors:

- Account turnover
- Sales
- Cash flows
- EMI/interest payments
- Stock
- Receivables
- GST/tax-related information where relevant
- Financial statements
- Drawing power
- Security
- Insurance
- Diversion of funds
- Changes in business conditions

14. Risks in MSME Lending

From the Bank's Perspective

1. Credit risk
Business fails to repay.

2. Business risk
Sales or profitability declines.

3. Industry risk
The borrower's sector experiences a downturn.

4. Cash-flow risk
The business has profits on paper but insufficient cash to service debt.

5. Concentration risk
Bank has excessive exposure to a particular sector/geography.

6. Fraud risk
Examples:

- False financial statements
- Fake invoices
- Inflated stock
- Diversion of funds
- Circular transactions

7. Collateral risk
Collateral may have inadequate value or legal/enforcement problems.

15. MSME Borrower's Responsibilities
The MSME borrower should:

- Provide accurate information
- Maintain proper books of account
- Use the loan for the sanctioned purpose
- Submit financial information on time
- Maintain required security
- Pay interest/EMIs on time
- Maintain adequate insurance where required
- Submit stock statements where applicable
- Inform the bank about material changes
- Avoid diversion of funds

16. Advantages to MSMEs
Bank finance can help MSMEs:

- Start a business
- Expand operations
- Purchase machinery
- Maintain inventory
- Meet working-capital requirements
- Manage receivables
- Improve technology
- Increase production
- Enter new markets

- Maintain cash-flow stability

17. Problems/Risks for MSMEs

Borrowers should consider:

- Interest cost
- Processing and other charges
- Collateral requirements
- Repayment burden
- Floating-rate risk
- Renewal/review requirements
- Covenants and documentation
- Consequences of default
- Possible loss/enforcement of security in secured facilities

18. Applicant vs Bank Perspective

MSME Borrower	Bank
Needs funds for business	Wants a viable credit exposure
Wants maximum finance	Determines eligible limit
Wants low interest	Prices credit risk
Wants minimum collateral	Protects bank's exposure
Wants quick approval	Performs due diligence
Wants flexible working capital	Monitors utilization
Wants long tenure	Determines suitable repayment period
Wants easy renewal	Reviews business performance
Wants high CC limit	Calculates working-capital requirement/DP
Wants easy repayment	Monitors asset quality

19. MSME Lending — Complete Framework

Borrower's side

Business requirement

→ Calculate project/working-capital requirement
→ Select bank/product
→ Prepare documents
→ Submit application
→ KYC
→ Financial assessment
→ Credit assessment
→ Security discussion
→ Sanction
→ Documentation
→ Disbursement
→ Use funds
→ Repayment
→ Renewal/closure

Bank's side

Receive application

→ Verify borrower
→ Verify business
→ Assess financials
→ Assess cash flow
→ Assess working capital
→ Assess security
→ Assess credit risk
→ Sanction
→ Document
→ Disburse
→ Monitor
→ Review/renew
→ Recover/resolve if necessary
→ Close

20. Key MSME Banking Facilities at a Glance

Facility	Main Purpose
Term Loan	Machinery, expansion, fixed assets
Cash Credit	Working capital
Overdraft	Flexible short-term liquidity
Working Capital Loan	Short-term operating requirements
Bill Discounting	Immediate funds against eligible bills
Invoice Finance	Finance against eligible receivables
Letter of Credit	Trade/payment support
Bank Guarantee	Performance/payment assurance
Equipment Finance	Machinery/equipment
Loan Against Property	Secured business finance
Export Finance	Export transactions
Import Finance	Import transactions
Digital MSME Loan	Digitally processed business credit

Core Principle

For an **MSME borrower**, the central question is:

"How much finance does my business need, what will it cost, and can my business generate enough cash flow to repay it?"

For the **bank**, the central question is:

"Is this business financially viable, is the proposed exposure appropriate, can the borrower repay from business cash flows, and are the bank's risks adequately controlled?"

Thus, sound MSME lending is based not merely on **collateral**, but on the combination of **business viability, cash flow, repayment capacity, financial strength, credit history, proper documentation, appropriate security and regulatory compliance**.

Kisan Credit Card (KCC) Scheme of Banks

The **Kisan Credit Card (KCC) Scheme** is a bank-credit facility designed to provide farmers with **adequate, timely and flexible credit** for crop production and specified agricultural and allied activities. The scheme was introduced in **1998** and has subsequently been revised to broaden its coverage and simplify credit delivery. (Reserve Bank of India)
KCC is implemented through **commercial banks, Regional Rural Banks (RRBs), Small Finance Banks and cooperative banks**, subject to the applicable framework. (Reserve Bank of India)

1. Objectives of the KCC Scheme
The principal objective is to provide farmers with **single-window, timely and simplified access to agricultural credit**.
The KCC framework covers:

1. Short-term credit for cultivation
2. Post-harvest expenses
3. Loans for marketing agricultural produce
4. Certain consumption requirements of the farmer household
5. Working capital for maintenance of farm assets and allied agricultural activities
6. Investment credit for agriculture and allied activities (Reserve Bank of India)

Thus, KCC is broader than simply a **"crop loan."**

2. Who Can Obtain a Kisan Credit Card?
The KCC framework covers eligible:
A. Owner cultivators
Individual farmers or joint borrowers who cultivate their own land.
B. Tenant farmers
Farmers cultivating land as tenants may be eligible.
C. Oral lessees
Eligible oral lessees may be covered.
D. Sharecroppers
Sharecroppers can be eligible subject to the applicable conditions.
E. SHGs and JLGs
Eligible **Self-Help Groups (SHGs)** and **Joint Liability Groups (JLGs)** of farmers, including tenant farmers and sharecroppers, may also be covered. (Reserve Bank of India)
Important: Actual eligibility, documentation and credit limits are determined under the applicable scheme and the implementing bank's policy.

3. Major Uses of KCC Finance
A. Crop Production
KCC can finance expenses associated with cultivation, including:

- Seeds
- Fertilizers
- Pesticides
- Labour
- Irrigation
- Other eligible cultivation expenses

The original KCC concept was specifically designed to make agricultural production credit available conveniently to farmers. (Reserve Bank of India)

B. Post-Harvest Expenses
Credit can cover eligible expenses after harvesting, such as:

- Storage
- Handling
- Transportation
- Other approved post-harvest requirements

C. Marketing of Produce
KCC can support eligible **produce-marketing loans**, allowing farmers to manage short-term liquidity needs associated with selling their agricultural produce. (Reserve Bank of India)

D. Household Consumption Requirements
The revised KCC framework also includes specified **consumption requirements of the farmer household** as part of the short-term credit component. (Reserve Bank of India)

E. Allied Agricultural Activities
Working capital may be provided for eligible allied activities such as:

- Dairy
- Inland fisheries
- Maintenance of farm assets
- Other permitted agricultural/allied activities

(Reserve Bank of India)

F. Investment Credit
The scheme can also cover eligible investment requirements, for example:

- Pump sets
- Sprayers
- Dairy animals
- Agricultural equipment
- Other eligible agricultural investments

The framework distinguishes this **long-term/investment credit component** from the short-term credit component. (Reserve Bank of India)

4. Structure of KCC Credit
The KCC framework broadly divides the credit requirement into:
Short-Term Credit Limit
Includes:
Cultivation + post-harvest + marketing + specified household consumption + working capital for farm/allied activities
Long-Term Credit Limit
Includes:
Investment credit for agriculture and allied activities

(Reserve Bank of India)
This makes KCC more flexible than a conventional one-purpose crop loan.

5. KCC as a Flexible Credit Facility
The important feature of KCC is that it is designed to provide farmers with **timely access to credit according to their agricultural cycle**.
Instead of applying for a completely new loan for every crop-related requirement, the farmer can use the sanctioned KCC facility subject to:

- Approved limit
- Drawing conditions
- Repayment requirements
- Crop cycle
- Bank's terms
- Applicable regulations

6. KCC Card
The farmer is provided a **Kisan Credit Card**, which facilitates access to the sanctioned credit facility.
Modern KCC arrangements can use electronic/digital banking channels, subject to the bank's systems and applicable requirements.
The underlying principle is:
Sanctioned agricultural credit limit → Farmer accesses credit when required → Uses it for eligible purposes → Repays according to the applicable terms

7. Fixation of KCC Limit
The bank determines the credit limit after assessing the farmer's requirements.
Factors can include:

- Nature of crop
- Area cultivated
- Cropping pattern
- Scale of finance
- Agricultural activity
- Input costs
- Expected production
- Repayment capacity
- Existing liabilities
- Allied activities
- Investment requirements

The applicable KCC framework provides methodologies for determining limits, while implementing banks have discretion to adapt procedures to institutional and local requirements. (Reserve Bank of India)

8. Documents Required

The exact documents vary according to the farmer and bank, but may include:

Identity/KYC

- Aadhaar or other officially accepted identity document
- PAN/Form 60, where applicable
- Address proof
- Photographs, where required

Land/tenancy documents

Depending on the farmer's status:

- Land ownership records
- Landholding records
- Lease documents, where available
- Cultivation/tenancy evidence
- Other documents accepted by the bank

Agricultural information

- Crop details
- Area cultivated
- Cropping pattern
- Agricultural activity details

Other documents

- Bank account details
- Existing loan information
- Documents relating to security, where applicable

9. KCC Interest

Interest on KCC credit is determined according to the **applicable agricultural-credit framework, bank's lending policy and government/RBI-supported interest-subvention arrangements where applicable**.

The borrower should not assume that every KCC has one universally fixed interest rate.

The actual cost may depend on:

- Applicable base/benchmark and lending rate
- Credit amount
- Borrower's category
- Repayment behaviour
- Applicable interest-subvention/incentive provisions
- Bank's product terms

10. Interest Subvention and Prompt Repayment Benefits

An important feature of agricultural credit in India is the availability of **government-supported interest benefits/subvention mechanisms for eligible agricultural loans**, subject to the conditions of the applicable scheme for the relevant year.

A farmer should therefore distinguish between:

Normal lending rate

and

Effective rate after eligible government interest support/incentive

The exact benefit, eligibility conditions and applicable limits can change with government policy, so the current year's applicable terms should always be checked with the bank.

11. Security/Collateral

The security requirements for KCC depend on:

- Amount of credit
- Type of facility
- Nature of borrower
- Bank's policy
- Applicable RBI/government instructions

Security may involve:

- Hypothecation of crops
- Charge over agricultural assets
- Land/property security
- Other collateral
- Guarantee arrangements

The borrower should obtain the bank's specific current security requirements before applying.

12. KCC from the Farmer's Perspective

Advantages

1. **Timely credit**
2. Convenient access to agricultural finance
3. Reduces dependence on informal lenders
4. Supports recurring crop expenses
5. Can cover eligible allied activities
6. Provides a single-window credit mechanism
7. Can support post-harvest and marketing requirements
8. May provide eligible interest benefits for prompt repayment

13. Farmer's Responsibilities

A KCC borrower should:

- Provide accurate land/cultivation information
- Use the facility for approved purposes
- Maintain the required account
- Repay according to the applicable schedule
- Pay interest on time
- Submit crop/other information when required

- Inform the bank about changes affecting repayment
- Maintain security where applicable
- Avoid diversion of agricultural credit

14. KCC from the Bank's Perspective

For a bank, KCC is an **agricultural credit product** involving significant assessment and monitoring.
The bank examines:

A. Farmer

- Identity
- Credit history
- Existing borrowing
- Repayment behaviour

B. Land/cultivation

- Ownership/tenancy
- Area
- Crop
- Cropping pattern

C. Credit requirement

- Cost of cultivation
- Scale of finance
- Working-capital requirement
- Investment requirement

D. Repayment capacity

- Expected agricultural income
- Crop cycle
- Other income
- Existing liabilities

E. Security

- Nature and value of security
- Legal enforceability
- Applicable collateral requirements

15. Bank's KCC Appraisal Process

Application
↓
KYC verification
↓
Land/tenancy verification
↓
Crop/activity assessment
↓
Credit requirement calculation
↓
Existing liability check
↓
Security assessment, where applicable
↓
Credit appraisal
↓
Sanction
↓
KCC issuance/activation
↓
Withdrawal/utilization
↓
Monitoring
↓
Repayment/renewal

16. Bank's Risks in KCC Lending

1. Crop Risk

Crop failure caused by:

- Drought
- Flood
- Cyclone
- Pest attack
- Disease
- Other natural events

2. Price Risk

Agricultural commodity prices may fall, reducing farmers' repayment capacity.

3. Credit Risk

The farmer may be unable to repay.

4. Documentation Risk

Incorrect land or tenancy documentation may create legal/credit problems.

5. Diversion Risk

Credit may be used for purposes other than those permitted under the facility.

6. Operational Risk

Large numbers of agricultural borrowers require effective monitoring and servicing.

17. Crop Insurance and KCC

Crop insurance and KCC are **different concepts**.

KCC

Provides **credit**.

Crop insurance

Provides **insurance protection** against specified agricultural risks, subject to the applicable insurance scheme and policy terms.

Insurance may be relevant to agricultural lending depending on the applicable product, government scheme and bank requirements.

18. KCC vs Ordinary Agricultural Loan

KCC	Ordinary Agricultural Loan
Flexible credit mechanism	Often purpose-specific
Designed as a single-window facility	May require separate financing
Crop + certain allied needs	May finance one specific activity
Can support recurring seasonal needs	Often structured for a defined requirement
Card/electronic access may be provided	Conventional loan account structure
Short-term and investment components can be incorporated	Depends on the individual loan
Designed for timely agricultural credit	Depends on product

19. KCC vs Term Loan

KCC	Agricultural Term Loan
Mainly recurring/working-capital needs	Mainly investment/fixed-asset needs
Crop production and allied working capital	Machinery, equipment, livestock etc.
Flexible utilization within sanctioned terms	Usually, fixed disbursement
Revolving features may apply	Scheduled repayment
Seasonal agricultural cycle	Longer investment cycle

20. Example

Suppose a farmer cultivates **10 acres**.
Estimated seasonal requirements:

- Seeds = ₹40,000
- Fertilizer = ₹80,000
- Pesticides = ₹30,000
- Labour = ₹70,000
- Irrigation = ₹30,000
- Other eligible expenses = ₹50,000

Total estimated crop requirement:
₹3,00,000
The bank assesses:

- Crop
- Area
- Scale of finance
- Existing liabilities
- Repayment capacity
- Applicable KCC rules

It may sanction an appropriate KCC limit according to the applicable methodology.
The farmer can then draw funds for eligible requirements and repay according to the facility's terms and crop cycle.

21. Applicant vs Bank Perspective

Farmer's Perspective	Bank's Perspective
Needs timely agricultural credit	Needs a viable agricultural credit exposure
Wants adequate limit	Calculates credit requirement
Wants easy access	Performs KYC and appraisal
Wants low interest	Prices credit under applicable framework
Wants minimum collateral	Determines security requirements
Wants flexible withdrawals	Controls utilization
Wants seasonal repayment	Aligns repayment with applicable crop cycle
Wants interest benefits	Applies eligible government/RBI provisions
Needs protection against crop risks	Manages agricultural credit risk
Wants renewal	Reviews account and repayment performance

22. Important Features at a Glance

Feature	KCC
Full form	Kisan Credit Card
Introduced	1998
Main beneficiaries	Farmers and eligible agricultural groups
Main purpose	Timely agricultural credit
Crop finance	Yes
Post-harvest finance	Yes
Produce marketing	Yes
Specified household consumption	Yes
Allied agricultural activities	Yes
Investment credit	Yes
Banks implementing	Commercial banks, RRBs, Small Finance Banks and cooperatives
Credit form	Short-term and eligible investment credit
Card/electronic access	Available under applicable bank arrangements
Security	Depends on amount, facility and applicable rules
Interest benefits	Available to eligible borrowers under applicable government arrangements

The RBI describes KCC as a mechanism intended to provide **adequate and timely credit under a single window with flexible and simplified procedures**, and its framework expressly includes owner cultivators, tenant farmers, oral lessees, sharecroppers and eligible SHGs/JLGs. (Reserve Bank of India)

In simple terms
For the farmer:
KCC is a convenient bank credit facility that provides timely funds for eligible crop, post-harvest, marketing, allied-activity and investment requirements.
For the bank:
KCC is an agricultural credit facility in which the bank assesses the farmer, land/cultivation, crop requirements, repayment capacity and applicable security, then provides and monitors credit according to the sanctioned terms and regulatory framework.

Eligibility Criteria for Kisan Credit Card (KCC) and Credit Limit
The **Kisan Credit Card (KCC) Scheme** provides farmers with timely and flexible institutional credit for crop cultivation and specified agricultural and allied activities. RBI's KCC framework covers both **short-term credit** and eligible **investment credit**. (Reserve Bank of India)
1. Eligibility Criteria
The following categories are eligible under the KCC framework:
A. Owner Cultivators
- Individual farmers who cultivate their own land
- Joint borrowers who are owner cultivators

B. Tenant Farmers
Farmers who cultivate land as tenants can be eligible.
C. Oral Lessees
Eligible farmers cultivating land under oral lease arrangements can also be covered.
D. Sharecroppers
Sharecroppers are eligible subject to the applicable conditions.
E. Joint Liability Groups (JLGs)
Eligible **Joint Liability Groups of farmers**, including tenant farmers and sharecroppers, may obtain KCC facilities.
F. Self-Help Groups (SHGs)
Eligible **SHGs of farmers** can also be covered. (Reserve Bank of India)
The implementing bank determines eligibility after verification of the farmer, cultivation/landholding details, credit requirement and other applicable conditions.

2. Basic Conditions Considered by the Bank
Although the KCC framework identifies eligible categories, the bank also assesses:
1. **Identity and KYC**
2. **Landholding/cultivation status**
3. **Area cultivated**
4. **Type of crop**
5. **Cropping pattern**
6. **Scale of finance applicable to the crop**
7. **Existing agricultural loans**
8. **Repayment capacity**
9. **Agricultural/allied activities**
10. **Applicable security requirements**

Thus, **eligibility does not automatically mean that every applicant receives the same credit limit**.

3. What Determines the KCC Credit Limit?

There is **no single fixed KCC limit applicable to every farmer**.

The bank calculates the limit according to the farmer's **actual agricultural credit requirement**.

For ordinary farmers, the first-year short-term limit is broadly based on:

Scale of finance × area cultivated + specified additional components

The RBI framework provides for additions for **post-harvest/household consumption requirements, repairs and maintenance of farm assets, and applicable insurance**, subject to the scheme's conditions. (Reserve Bank of India)

4. First-Year Credit Limit

For a farmer cultivating a single crop, the RBI framework provides broadly:

First-year short-term limit

Scale of Finance × Extent of Area Cultivated

+ 10% towards post-harvest/household consumption requirements

+ 20% towards repairs and maintenance of farm assets

+ applicable crop/accident/health/asset insurance components, as applicable. (Reserve Bank of India)

Example

Suppose:

- Area cultivated = **5 hectares**
- Scale of finance = **₹50,000 per hectare**

Basic crop requirement:

$$5 \times ₹50{,}000 = ₹2{,}50{,}000$$

10% additional component:

$$₹25{,}000$$

20% additional component:

$$₹50{,}000$$

Thus, before applicable insurance components:

$$₹2{,}50{,}000 + ₹25{,}000 + ₹50{,}000 = \boxed{₹3{,}25{,}000}$$

The actual sanctioned limit is determined by the bank using the applicable scale of finance, crop, area, insurance and other relevant factors.

5. Credit Limit for the Second to Fifth Year

The KCC framework provides for a **five-year limit structure** in the revised scheme.

For subsequent years, the first-year limit is increased by **10% per year** towards escalation in costs/increase in scale of finance for the second, third, fourth and fifth years, subject to the applicable scheme. (Reserve Bank of India)For example, if the initial applicable limit were ₹3,00,000:

Year	Illustrative limit before other adjustments
Year 1	₹3,00,000
Year 2	₹3,30,000
Year 3	₹3,60,000
Year 4	₹3,90,000
Year 5	₹4,20,000

This is an **illustration of the 10% escalation mechanism**, not a universal KCC sanction amount.

6. If the Farmer Grows More Than One Crop

Where a farmer cultivates **more than one crop in a year**, the bank considers the proposed cropping pattern.
The first-year limit is calculated based on:
Crop 1 requirement + Crop 2 requirement + Crop 3 requirement + ...
The applicable escalation is then considered for subsequent years. If the farmer changes the cropping pattern, the limit may be **reworked**. (Reserve Bank of India)

7. Investment/Term-Loan Component

KCC is not limited to short-term crop finance.
A separate **term-loan/investment component** can be provided for eligible agricultural and allied investments such as:

- Land development
- Minor irrigation
- Agricultural equipment
- Pump sets
- Sprayers
- Dairy animals
- Other eligible agricultural/allied investments

The bank determines this component based on:

- Cost of the proposed asset/investment
- Existing allied activities
- Repayment capacity
- Existing loan obligations
- Proposed investment during the relevant period. (Reserve Bank of India)

8. Structure of the KCC Limit

The overall KCC requirement can therefore be understood as:
Short-Term Credit Component

- Crop cultivation
- Post-harvest expenses
- Produce marketing
- Specified household consumption
- Working capital for farm/allied activities

PLUS
Term/Investment Credit Component

- Farm equipment
- Irrigation
- Land development
- Dairy
- Other eligible agricultural investments

The RBI specifically describes these as separate short-term and long-term components of the KCC limit. (Reserve Bank of India)

9. Who Decides the "Scale of Finance"?

The **Scale of Finance** is an important factor in determining the crop-related KCC limit.

It is generally determined through the appropriate **District Level Technical Committee (DLTC)** mechanism for the relevant crop/area.

Therefore:

The same acreage does not necessarily result in the same KCC limit for every crop or location.

For example, the cost of cultivating one hectare of paddy can differ substantially from the cost of cultivating one hectare of sugarcane or another crop.

10. Is There a Maximum KCC Limit?

There is **not one universal maximum KCC limit for every farmer**.

The limit is **need-based** and depends on factors such as:

- Land/area cultivated
- Crop
- Scale of finance
- Cropping pattern
- Post-harvest requirements
- Farm maintenance requirements
- Allied activities
- Investment requirements
- Repayment capacity
- Existing liabilities
- Applicable bank/regulatory conditions.

Consequently, two farmers with different landholdings and crops can receive very different KCC limits.

11. Security/Collateral

Security requirements depend on the **amount of credit, type of facility and applicable RBI/bank rules**.

The bank may consider:

- Hypothecation/charge over crops
- Agricultural land/security
- Other collateral
- Guarantees
- Other permitted security arrangements

The applicant should therefore ask the particular bank for its **current collateral-free threshold and security requirements**, because these can change under regulatory and government policy.

12. Documents Generally Required

KYC

- Identity proof
- Address proof
- PAN/Form 60, where applicable
- Photograph, where required

Land/Cultivation

- Land records
- Ownership documents
- Tenancy/lease evidence, where applicable
- Cultivation details

Crop Information

- Crop proposed
- Area cultivated
- Cropping pattern
- Agricultural activity

Financial/Credit Information

- Existing loan details
- Bank account information
- Other documents required by the bank

13. KCC Eligibility and Credit Limit — Examination Table

Factor	Requirement/Effect
Owner cultivator	Eligible
Tenant farmer	Eligible, subject to applicable conditions
Oral lessee	Eligible, subject to applicable conditions
Sharecropper	Eligible, subject to applicable conditions
Farmer SHG	Eligible, subject to applicable conditions
Farmer JLG	Eligible, subject to applicable conditions
Crop	Determines cultivation requirement
Area cultivated	Determines credit requirement
Scale of finance	Major basis of crop-credit calculation
Cropping pattern	Affects limit
Post-harvest requirement	Included in applicable short-term limit
Farm-asset maintenance	Included in applicable calculation
Insurance	Included as applicable
Allied activities	Can form part of eligible credit
Investment activities	Can receive term-loan component
Existing liabilities	Considered by bank
Repayment capacity	Considered by bank
Security	Depends on applicable rules and bank policy

14. Simple Formula to Remember

For examination purposes, the basic KCC calculation for a farmer other than a marginal farmer can be remembered as:

$$\boxed{\text{First-year KCC limit} = (\text{Scale of Finance} \times \text{Area}) + 10\% + 20\% + \text{applicable insurance}}$$

Then:

\boxed{ \text{Subsequent-year limit} = \text{Previous/base limit} +\text{10% annual escalation, as applicable} }

plus the eligible **term-loan/investment component**, where applicable. (Reserve Bank of India)

Important qualification

The above is the **RBI KCC framework**, not a promise that a bank will sanction exactly that amount. RBI expressly states that the scheme provides broad guidelines and that implementing banks may adapt them to institution/location-specific requirements. (Reserve Bank of India)

In short: A person can be eligible for KCC as an **owner cultivator, tenant farmer, oral lessee, sharecropper, or through an eligible farmer SHG/JLG**. The credit limit is **not a flat amount**; it is primarily determined from the farmer's **crop, cultivated area and applicable scale of finance**, with prescribed additional components and, where applicable, an investment-credit component.

Different Scales of Finance in Banking

Scale of Finance (SoF) is the **amount of finance fixed for a particular crop, agricultural activity, or unit of activity for a specified area**, generally on a per-acre/hectare basis. Banks use it especially while determining **crop-loan limits under the Kisan Credit Card (KCC)**.

1. Crop-wise Scale of Finance

The District Level Technical Committee (DLTC) / District Level Committee generally recommends the scale for different crops based on the estimated cost of cultivation.

For example:

Crop	Scale of Finance per acre*
Paddy	₹30,000
Groundnut	₹25,000
Cotton	₹35,000
Sugarcane	₹50,000
Vegetables	₹40,000

*These are **illustrative figures only**; the actual scale varies by district, crop, season and year.

Example:

If the approved scale for paddy is ₹30,000 per acre and a farmer cultivates 5 acres:

Crop finance = ₹30,000 × 5 = ₹1,50,000

2. Different components considered in Scale of Finance

The scale may take into account:

- Seeds
- Fertilizers and manure
- Pesticides
- Labour charges
- Irrigation expenses
- Land preparation
- Machinery/equipment expenses

- Electricity/fuel
- Harvesting and post-harvest expenses
- Other production costs

3. Scale of Finance for Allied Activities

Separate norms may be prescribed for activities such as:

- Dairy farming
- Poultry
- Sheep/goat rearing
- Fisheries
- Beekeeping
- Sericulture
- Horticulture
- Plantation crops

4. Scale of Finance and KCC

For a KCC crop loan, the bank generally considers:

Eligible crop loan = Scale of Finance × Cultivated area

The overall KCC limit can also include components such as **post-harvest/household consumption requirements and maintenance of farm assets**, subject to applicable banking/RBI/NABARD guidelines and the farmer's eligibility.

5. Who fixes the Scale of Finance?

The scale is **not one uniform amount for the whole of India**. It is determined/recommended at the **district/state level** based on local cultivation costs and periodically revised.

Exam definition:

Scale of Finance is the estimated amount of finance required per unit of area for raising a particular crop or carrying out a particular agricultural activity, as approved by the competent district/state-level committee.

Role of Banks in Promoting Micro and Small Enterprises

Banks play a major role in the development of **Micro and Small Enterprises (MSEs)** by providing finance, payment services, advisory support and access to formal financial systems. Their role is not limited to giving loans; banks can also help enterprises **start, survive, modernize, expand and become more competitive**.
In India, lending to eligible MSEs is also an important component of the banking system's **priority-sector lending framework**.

1. Providing Finance

The most important role of banks is to provide adequate and timely credit.
Banks provide:

- Term loans
- Working-capital loans
- Cash credit
- Overdrafts
- Bills/invoice financing
- Equipment finance
- Loans against eligible security
- Trade finance

Purpose
Finance can help an MSE:
Start → Operate → Expand → Modernize → Diversify

2. Working-Capital Finance

MSEs frequently face a gap between **paying suppliers** and **receiving money from customers**.
Banks help bridge this gap through:

- Cash credit
- Overdraft
- Working-capital loans
- Receivable/invoice financing
- Bill discounting

Example
An enterprise sells goods worth ₹10 lakh on 60-day credit.
It needs money immediately to:

- Buy raw materials
- Pay workers
- Pay suppliers
- Meet operating expenses

Bank finance can bridge the receivables gap until the customer pays.

3. Term Loans for Fixed Assets
Banks finance the acquisition of:
- Machinery
- Plant
- Equipment
- Computers
- Vehicles, where eligible
- Business premises, where eligible
- Technology

This enables MSEs to increase their productive capacity.

4. Supporting New Enterprises
Banks can provide financial assistance to eligible entrepreneurs for establishing new businesses.
Finance may cover:
- Machinery
- Equipment
- Initial working capital
- Infrastructure
- Other eligible start-up expenditure

The bank evaluates the business proposal, entrepreneur, projected cash flows and other relevant factors before sanctioning credit.

5. Supporting Business Expansion
Once an enterprise becomes established, banks can provide additional finance for:
- Increasing production
- Opening new units
- Entering new markets
- Purchasing additional machinery
- Increasing inventory
- Hiring additional employees

Thus, banks contribute to the **scaling-up of MSEs**.

6. Technology Upgradation
Banks can support MSEs in adopting:
- Modern machinery
- Automation
- Digital systems
- Computerization
- Energy-efficient equipment
- New production technologies

Technology finance can improve:
- Productivity
- Product quality
- Cost efficiency
- Competitiveness

7. Credit Guarantee Support

One of the important mechanisms for improving access to MSE credit is **credit guarantee coverage**.

Eligible loans may receive credit guarantee support under applicable government-backed schemes, such as those associated with **CGTMSE**.

This can reduce the lender's credit risk and facilitate lending to eligible enterprises that may not have sufficient collateral.

Important: A credit guarantee does not eliminate the borrower's obligation to repay the bank.

8. Priority Sector Lending

Eligible MSE credit forms part of the **Priority Sector Lending (PSL)** framework applicable to banks in India.

The purpose is to ensure that important sectors of the economy receive adequate institutional credit.

Thus, banks contribute to MSE development not only through their commercial lending decisions but also through the applicable **regulatory priority-sector framework**.

9. Trade Finance

Banks help MSEs participate in domestic and international trade through:

- Letters of credit
- Bank guarantees
- Import finance
- Export finance
- Bill finance
- Foreign exchange services
- Working-capital facilities

This is particularly important for MSEs involved in exports and supply chains.

10. Bank Guarantees

MSEs may require guarantees to participate in:

- Government contracts
- Corporate contracts
- Tenders
- Supply arrangements
- Construction contracts

A bank guarantee can help an eligible MSE demonstrate financial credibility to its counterparty, subject to the bank's appraisal and terms.

11. Digital Banking Services

Banks promote MSEs by providing digital financial infrastructure:

- Internet banking
- Mobile banking
- UPI
- NEFT
- RTGS
- IMPS
- Digital collections
- Payroll/payment services

- Online loan applications

Digital banking can reduce transaction costs and improve the speed of business payments.

12. Current Accounts and Cash Management

Banks provide business accounts and cash-management services that help MSEs:

- Receive customer payments
- Pay suppliers
- Manage salaries
- Transfer funds
- Monitor cash flows
- Reconcile transactions

Effective cash management can improve business liquidity.

13. Financial Inclusion

Banks bring small enterprises into the **formal financial system**.

This can provide access to:

- Formal credit
- Bank accounts
- Digital payments
- Insurance-related services
- Investment products
- Credit history
- Government-linked financial schemes

Formal banking can reduce dependence on informal sources of finance.

14. Credit Information and Financial Discipline

Banking relationships encourage MSEs to maintain:

- Proper financial records
- Regular banking transactions
- Timely loan repayments
- Tax/GST compliance where applicable
- Transparent financial information

Good repayment behaviour can help an enterprise establish a positive credit history and potentially improve future access to finance.

15. Financial Advisory and Business Support

Banks may assist MSE customers through:

- Financial planning
- Working-capital assessment
- Cash-flow management
- Digital banking guidance
- Export/trade-finance guidance
- Information about applicable government schemes

The extent of advisory services varies between banks.

16. Supporting Women Entrepreneurs

Banks can provide appropriate financial products and schemes for eligible **women-owned or women-led enterprises**.

This can promote:

- Entrepreneurship
- Self-employment
- Economic participation
- Business ownership

17. Supporting Rural and Local Enterprises

Banks, particularly through branches and rural banking networks, can provide credit to enterprises operating in:

- Rural areas
- Semi-urban areas
- Small towns
- Local manufacturing centers
- Traditional industries

This helps promote **balanced regional development**.

18. Supporting Employment Generation

When banks finance an MSE, the enterprise can use the funds to:

- Establish operations
- Purchase machinery
- Increase production
- Hire workers
- Open additional units

Thus:

Bank finance → Business investment → Expansion → Employment → Income generation

19. Supporting Entrepreneurship

Banks can help convert an entrepreneur's business idea into a functioning enterprise by providing appropriate financial facilities.

The bank's role includes evaluating:

- Business idea
- Entrepreneurial experience
- Market opportunity
- Project cost
- Funding requirement
- Expected cash flow
- Repayment capacity

20. Supporting Sustainable and Green Enterprises

Banks increasingly provide or facilitate financing for eligible investments involving:

- Energy efficiency
- Renewable energy
- Cleaner technology
- Waste reduction
- Sustainable production

This can help MSEs reduce operating costs and improve environmental performance.

21. Helping MSEs During Financial Stress

When an otherwise viable MSE experiences temporary financial difficulties, banks may, **where appropriate and permitted under applicable regulatory frameworks**, consider restructuring or other resolution measures.

The objective can be to:

- Restore viability
- Prevent unnecessary business failure
- Protect employment
- Improve recovery prospects for the bank

Such assistance is not automatic and depends on the applicable framework and the bank's assessment.

22. Monitoring and Responsible Lending

Banks also promote sustainable MSE development by ensuring that credit is:

- Properly assessed
- Adequately documented
- Used for the sanctioned purpose
- Monitored appropriately
- Repaid according to agreed terms

Responsible lending helps prevent **over-borrowing and excessive debt**.

23. Bank's Perspective

From the bank's point of view, MSE lending provides:

Business opportunities

- Interest income
- Fee income
- Trade-finance income
- Payment-service revenue
- Long-term customer relationships

Strategic benefits

- Diversification of the loan portfolio
- Expansion into new markets
- Cross-selling opportunities
- Contribution to financial inclusion

But banks must manage:

- Credit risk
- Business risk
- Industry risk
- Fraud risk
- Operational risk
- Concentration risk
- Recovery risk

24. MSE's Perspective

From the MSE's point of view, banks provide:

Capital
↓
Working capital
↓
Machinery finance
↓
Payment infrastructure
↓
Trade finance
↓
Digital banking
↓
Financial services
↓
Business expansion

25. Bank's Role in the MSE Life Cycle

Stage of MSE	Role of Bank
Idea/Start-up	Eligible start-up finance
Establishment	Term loan + working capital
Early operations	Cash credit/OD and payment services
Growth	Additional working capital
Expansion	Machinery/equipment finance
Modernization	Technology finance
Trade	LC, BG, export/import finance
Digitalization	Digital banking and payments
Financial stress	Eligible restructuring/resolution
Maturity	Larger and specialized financial services

26. Summary of the Role of Banks

Financial Role

- Provide loans
- Provide working capital
- Finance fixed assets
- Provide trade finance
- Facilitate credit guarantees

Developmental Role

- Promote entrepreneurship
- Generate employment
- Encourage technology adoption
- Support regional development
- Promote financial inclusion

Service Role

- Current accounts
- Payments
- Cash management
- Digital banking
- Foreign exchange
- Guarantees and letters of credit

Monitoring Role

- Credit appraisal
- Financial monitoring
- Risk management
- Recovery and resolution
- Responsible lending

Flow Chart

Bank

→ **Finance**

→ Working capital

→ Term loans

→ Equipment finance

→ Trade finance

↓

MSE

→ Starts business

→ Maintains operations

→ Purchases machinery

→ Expands production

→ Enters new markets

↓

Economic Development

→ Employment

→ Production

→ Income

→ Entrepreneurship

→ Exports

→ Regional development

Conclusion

The role of banks in promoting Micro and Small Enterprises extends **far beyond providing loans**. Banks act as **financiers, payment-service providers, trade facilitators, financial intermediaries and partners in business growth**. By providing appropriate and timely credit, digital financial services, guarantees and other banking facilities, while maintaining sound credit appraisal and risk management, banks help MSEs become **financially stronger, productive, competitive and capable of generating employment and economic value**.

Module A: GENERAL BANKING
Chapter 6: Principles of Sound Lending
6.1 Objectives
6.2 Introduction
6.3 Principles of Lending

Principles of Sound Lending
Sound lending means granting credit in a manner that protects the bank's funds while meeting the legitimate financial requirements of borrowers. A bank must balance **safety, liquidity, profitability, and the borrower's genuine credit needs**.
The traditional principles of sound bank lending are particularly important when a bank evaluates loans and advances.

1. Safety of Funds
Safety is the foremost principle of lending.
A bank lends money obtained largely from depositors and therefore must ensure that the money is likely to be recovered.
Before granting a loan, the bank examines:

- Creditworthiness of the borrower
- Repayment capacity
- Income/cash flow
- Past credit history
- Purpose of the loan
- Security/collateral, where applicable
- Financial position

Principle
The bank should lend where there is a reasonable expectation of repayment of principal and interest.

2. Liquidity
Liquidity means the ability of the bank to meet its obligations when they become due.
Banks cannot lock all their funds into long-term or illiquid loans.
Therefore, the bank considers:

- Loan tenure
- Repayment schedule
- Liquidity of security
- Nature of deposits funding the lending
- Cash-flow requirements

Principle
A bank should maintain sufficient liquidity while lending its funds.

3. Profitability

Banking is a commercial activity, so lending should generate an adequate return after considering:

- Cost of funds
- Credit risk
- Operating costs
- Capital requirements
- Expected losses
- Applicable charges and income

The bank earns primarily through:

Interest income + permitted fees/charges – Cost of funds – Credit/operating costs

Thus, a loan may be safe but still unattractive if it produces inadequate returns.

4. Purpose of the Loan

The bank should understand **why the borrower needs the money**.

Examples:

- Housing
- Education
- Agriculture
- Business
- Working capital
- Machinery
- Trade

The purpose should be **legitimate, clearly identified and consistent with the bank's lending policy and applicable regulations**.

The bank should also monitor for **diversion of funds**.

5. Repayment Capacity

The bank must determine whether the borrower can repay the loan.

It examines:

- Income
- Cash flow
- Existing liabilities
- Business profitability
- Debt-service capacity
- Employment stability
- Future expected cash flows, where relevant

Key principle

Repayment should primarily come from the borrower's sustainable cash flow/income, rather than relying solely on sale of collateral.

6. Security

Banks may require appropriate security depending on the nature and risk of the facility.

Possible security includes:

- Mortgage
- Hypothecation
- Pledge
- Lien
- Assignment
- Guarantee
- Other eligible collateral

However:

Security is a protection against loss; it is not a substitute for repayment capacity.

A bank should not make an otherwise unsound loan merely because valuable collateral is available.

7. Diversification

A bank should avoid excessive concentration of lending in:

- One borrower
- One industry
- One geographic area
- One commodity
- One business group
- One type of asset

Example

If a bank lends excessively to one industry and that industry collapses, the bank can suffer substantial losses.

Therefore:

Diversification reduces concentration risk.

8. Character of the Borrower

The bank considers the **integrity, reputation and past financial conduct** of the borrower.

It may examine:

- Credit history
- Previous repayment behaviour
- Account conduct
- Business reputation
- Financial disclosures
- Legal/compliance history relevant to the lending decision

A borrower with a strong repayment record generally presents lower credit risk than one with a history of defaults.

9. Capacity

Capacity refers to the borrower's ability to repay.
The bank assesses:

- Income
- Business turnover
- Profitability
- Cash flows
- Existing debt
- Debt-service obligations

For businesses, the bank may examine financial statements and working-capital requirements.

10. Capital

Capital means the borrower's own financial stake or net worth.
A borrower who contributes an appropriate amount of own funds generally has a stronger financial stake in the project.
For example:
Project cost = ₹10 crore
Promoter's contribution = ₹3 crore
Bank finance = ₹7 crore
The bank may assess whether the borrower's own contribution is adequate under the applicable financing structure.

11. Collateral

Collateral is an asset provided to secure a loan.
Examples:

- Land/building
- Machinery
- Inventory
- Receivables
- Fixed deposits
- Securities

The bank evaluates:

- Ownership
- Value
- Legal validity
- Marketability
- Enforceability
- Adequacy relative to exposure

12. Margin

Margin is the portion of the financing requirement that the borrower contributes from their own resources.
For example:
Property value = ₹50 lakh
Bank finance = ₹40 lakh
Borrower's contribution = ₹10 lakh
The ₹10 lakh represents the borrower's contribution/margin in this simplified illustration.
Margin provides a **buffer against fluctuations in asset value and borrower exposure**, depending on the lending arrangement.

13. Adequacy of Working Capital

For business borrowers, the bank must ensure that the working-capital facility is neither:

- **Insufficient**, causing operational difficulties, nor
- **Excessive**, increasing unnecessary debt and risk.

The bank studies:

- Inventory
- Receivables
- Payables
- Operating cycle
- Sales
- Cash conversion cycle

14. Loan Amount Should Match the Requirement

The bank should provide an amount that is **appropriate to the borrower's genuine requirement and repayment capacity**.
Avoid:
Under-financing → business/project may fail because funds are insufficient.
Over-financing → borrower may become excessively indebted.
Therefore:
The amount of credit should be appropriate to the purpose and repayment capacity.

15. Proper Documentation

Every loan should be adequately documented.
Important documents may include:

- Loan application
- KYC documents
- Financial statements
- Sanction letter
- Loan agreement
- Security documents
- Guarantee documents
- Mortgage/hypothecation documents
- Repayment mandate

Proper documentation protects both: **Bank + Borrower**
and supports enforceability of the bank's rights.

16. Legal and Regulatory Compliance

Banks must ensure that lending complies with:

- Banking laws
- RBI directions
- KYC/AML requirements
- Priority-sector requirements, where applicable
- Prudential norms
- Fair-practice requirements
- Applicable security/enforcement laws
- Other relevant regulations

A loan may be financially attractive but still cannot be granted or structured in violation of applicable law.

17. Proper Valuation of Security

Where collateral is involved, the bank should ensure that its value is **realistic and independently assessed where appropriate**.

For property, this may involve:

- Legal title verification
- Technical valuation
- Market-value assessment

For machinery:

- Age
- Condition
- Market value
- Depreciation
- Resale value

18. End-Use of Funds

The bank should ensure that the loan is used for the **sanctioned purpose**.

For example:

Sanctioned: ₹20 lakh for machinery

Not appropriate: Using the money for an unrelated personal investment.

Monitoring end-use helps prevent:

- Diversion of funds
- Misuse of credit
- Fraud
- Unauthorized transactions

19. Proper Credit Appraisal

Before sanctioning a loan, the bank should conduct appropriate credit appraisal.

A simplified appraisal can be represented as:**5 Cs of Credit**

1. **Character**
2. **Capacity**
3. **Capital**
4. **Collateral**
5. **Conditions**

Character
Will the borrower act responsibly?
Capacity
Can the borrower repay?
Capital
What is the borrower's own financial strength?
Collateral
What security is available?
Conditions
What are the economic, industry and transaction conditions?

20. Diversification of Risk
The bank should spread its credit exposure across suitable:

- Borrowers
- Industries
- Regions
- Loan products
- Economic sectors

This protects the bank from a concentrated loss.

21. Principle of Suitability
The credit facility should be **suitable for the borrower's actual requirement**.
For example:

- Working-capital requirement → Working-capital facility
- Machinery purchase → Term loan/equipment finance
- Housing → Housing loan
- Temporary liquidity → Appropriate overdraft

A mismatch between the facility and the requirement can increase repayment risk.

22. Flexibility
A sound lending policy should have sufficient flexibility to accommodate legitimate differences among borrowers.
However, flexibility should not mean:

- Ignoring credit risk
- Ignoring documentation
- Ignoring regulatory requirements
- Making arbitrary exceptions

23. Monitoring and Supervision
Sound lending does not end with loan disbursement.
The bank should monitor:

- Repayment
- Account conduct
- Financial performance
- Security

- Insurance, where applicable
- End-use
- Stock/receivables where relevant
- Changes in borrower circumstances

Principle

A loan must be monitored throughout its life, not merely at the time of sanction.

24. Timely Recovery

The bank should take timely action when an account becomes stressed or overdue.

This may involve:

- Early identification of stress
- Communication with the borrower
- Resolution measures where appropriate
- Restructuring where permitted and viable
- Recovery action
- Security enforcement where legally applicable

Timely action can reduce losses.

25. Fair and Responsible Lending

Banks should follow responsible lending practices, including:

- Transparent terms
- Clear disclosure of interest and charges
- Appropriate communication
- Fair treatment of customers
- No discriminatory or arbitrary lending practices
- Responsible assessment of repayment capacity

26. Confidentiality

Banks must appropriately protect customer information and maintain confidentiality, subject to disclosures permitted or required by law, regulation or legitimate banking purposes.

27. Principle of Liquidity vs Profitability

The bank must balance:

Safety + Liquidity + Profitability

A loan may be:

- Highly profitable but risky
- Very safe but poorly profitable
- Liquid but low-yielding

The objective is to create a **balanced and sustainable lending portfolio**.

28. Traditional Principles of Sound Lending — Easy to Remember

The traditional banking principles can be summarized as:

S-L-P-D-R-S-D

S — Safety
L — Liquidity
P — Profitability
D — Diversification
R — Repayment capacity
S — Security
D — Documentation

You can expand this further to include:

Purpose + Character + Capacity + Capital + Collateral + Conditions + Compliance + Monitoring

29. Applicant vs Bank Perspective

Applicant's Concern	**Bank's Concern**
How much can I borrow?	How much should we lend?
What will it cost?	Will the return justify the risk?
Can I get the loan quickly?	Is adequate due diligence complete?
What security is needed?	Is security adequate and enforceable?
What is my EMI?	Can the borrower service the debt?
Can I use the money freely?	Is end-use consistent with sanction?
Can I repay early?	What are the applicable prepayment implications?
What happens if I cannot repay?	How will stress/default be managed?

30. Complete Sound-Lending Process

Know the borrower
↓
Understand the purpose
↓
Assess repayment capacity
↓
Analyze financial position
↓
Evaluate credit history
↓
Assess security/collateral, if applicable
↓
Determine appropriate loan amount
↓
Determine pricing and terms
↓
Complete documentation
↓
Ensure legal/regulatory compliance
↓
Disburse appropriately
↓
Monitor end-use and repayment
↓
Identify stress early
↓
Take appropriate resolution/recovery action

Conclusion

The fundamental principle of sound lending is:

"Lend to a creditworthy borrower for a legitimate and viable purpose, in an appropriate amount and on suitable terms, with adequate risk protection, proper documentation and continuous monitoring."

The traditional **three pillars** are **Safety, Liquidity and Profitability**. Modern sound lending additionally emphasizes **repayment capacity, responsible lending, diversification, proper documentation, regulatory compliance, end-use monitoring and risk management**.

Module A: GENERAL BANKING
Chapter 7: Asset Classification and Methods of Recovery
7.1 Objectives
7.2 Introduction
7.3 Definition of NPA
7.4 Asset Classification
7.5 Important Aspects of Recovery

Asset Classification by Banks and Related Criteria

Asset classification is the process by which a bank classifies its **loan and advance accounts according to their performance, repayment status and recoverability**. It helps the bank determine how much income can be recognized and how much **provision** must be made against possible losses.
For Indian commercial banks, the principal framework is RBI's **Income Recognition, Asset Classification and Provisioning (IRACP)** norms. The RBI's current Master Circular for commercial banks was issued on **1 April 2025** and consolidates instructions issued up to 31 March 2025. (Reserve Bank of India)

1. Main Categories of Bank Assets

For prudential asset classification, bank advances are broadly divided into:

1. **Standard Assets**
2. **Sub-standard Assets**
3. **Doubtful Assets**
4. **Loss Assets**

The last three are categories of **Non-Performing Assets (NPAs)**. (Reserve Bank of India)

Classification structure

Bank Advances

→ **Standard Assets**

→ **Non-Performing Assets (NPAs)**

→ Sub-standard

→ Doubtful

→ Loss

2. Standard Asset

A **standard asset** is a loan that is performing normally and does not disclose problems or carry more than the normal level of risk associated with the business.
In simple terms:
The borrower is meeting the repayment obligations and the account is functioning normally.
Examples:

- EMI is being paid on time.
- Interest is being serviced regularly.
- There is no indication of serious financial weakness.
- The loan is not an NPA.

Standard assets nevertheless require **prescribed prudential provisioning**, even though they are performing assets. (Reserve Bank of India)

3. Non-Performing Asset (NPA)

An asset becomes an **NPA when it ceases to generate income for the bank** in accordance with the applicable RBI criteria.

For a normal **term loan**, an account becomes NPA when **interest and/or instalment of principal remains overdue for more than 90 days**. (Reserve Bank of India)

Other important NPA criteria

Facility	NPA criterion
Term loan	Principal/interest overdue for more than 90 days
OD/CC	Account remains **out of order**
Bills purchased/discounted	Bill remains overdue for more than 90 days
Other accounts	Amount receivable remains overdue for more than 90 days
Agricultural advances	Special crop-season based criteria apply

(Reserve Bank of India)

4. "Out of Order" in OD/CC Accounts

For **Overdraft (OD) and Cash Credit (CC)** accounts, the 90-day instalment test applicable to a term loan does not by itself determine NPA status.

The account is treated as **out of order** according to RBI's prescribed criteria.

Therefore, banks monitor:

- Outstanding balance
- Sanctioned limit
- Drawing power
- Credits into the account
- Interest servicing
- Account activity
- Repayment pattern

This is particularly important for working-capital borrowers. (Reserve Bank of India)

5. Sub-standard Asset

Once an account becomes an NPA, it is initially classified as a **sub-standard asset**, subject to the applicable regulatory rules.

Under the current framework, an asset is sub-standard when it has remained an NPA for a period **not exceeding 12 months**. (Reserve Bank of India)

Example

A term loan becomes NPA on:

1 January 2027

It would generally be classified as **sub-standard** during the applicable initial NPA period, subject to the specific RBI rules governing the account.

6. Doubtful Asset

A sub-standard asset becomes a **doubtful asset** when it remains in the sub-standard category for **more than 12 months**.

Thus:

NPA → Sub-standard → more than 12 months → Doubtful

The classification reflects increasing uncertainty regarding recovery.

7. Loss Asset

A **loss asset** is an asset where the loss has been identified by the bank, auditor or RBI, but the amount has not been completely written off.

It may include an asset where:

- Recovery is considered highly unlikely;
- Security value has substantially eroded;
- There is little or no realistic prospect of recovery;
- The asset has been identified as a loss by the appropriate authority/auditor.

The important principle is:

A loss asset is considered essentially uncollectible, although there may still be some salvage or recovery value. (Reserve Bank of India)

8. Classification Does Not Depend Merely on Collateral

One of the most important principles is:

The existence of security does not by itself prevent an account from becoming an NPA.

The bank must classify the account based on the prescribed **objective performance/recovery criteria**.

Thus:

Loan secured by property + EMI overdue beyond applicable NPA threshold = can still become NPA.

The value of collateral becomes important for **provisioning and recovery**, but generally does not determine whether the account initially becomes an NPA. (Reserve Bank of India)

9. Classification Is Based on Record of Recovery

RBI emphasizes that income recognition and asset classification should be based on **objective criteria and actual recovery performance**, rather than subjective judgment.

Therefore, a bank should not keep an account as "standard" simply because:

- The borrower has a valuable property;
- The borrower has a high net worth;
- A guarantor is wealthy;
- The bank expects payment in the future.

The prescribed performance criteria must be applied. (Reserve Bank of India)

10. Asset Classification Is Borrower-Wise

Asset classification has an important **borrower-wise** dimension.

Banks cannot simply classify one facility as standard while ignoring the applicable status of other facilities of the same borrower where RBI rules require borrower-wise classification.

This prevents artificial splitting of a borrower's credit exposure merely to avoid NPA recognition.

11. SMA — Early Warning Before NPA

Before an account becomes NPA, banks use **Special Mention Account (SMA)** categories to identify stress.
For many loan accounts, the broad structure is:

Category	Status
SMA-0	Principal/interest payment overdue up to 30 days
SMA-1	Overdue for more than 30 days and up to 60 days
SMA-2	Overdue for more than 60 days and up to 90 days
NPA	Generally, beyond 90 days for applicable term-loan accounts

These categories are intended as **early-warning mechanisms**.

Example

If an EMI becomes overdue:
Day 1–30 → SMA-0
Day 31–60 → SMA-1
Day 61–90 → SMA-2
Beyond 90 days → NPA, subject to the applicable rules.

12. Agricultural Loans — Special Criteria

Agricultural advances have **special crop-season-based NPA norms** rather than simply applying the ordinary 90-day test in every case.
The relevant criteria depend on:

- Crop
- Crop season
- Duration of the crop
- Repayment schedule
- Nature of agricultural advance

RBI specifically provides different treatment for eligible direct agricultural advances. (Reserve Bank of India)
Therefore, **agricultural NPA classification should not be calculated mechanically using the ordinary 90-day term-loan rule.**

13. Provisioning and Asset Classification

Asset classification directly affects the amount of **provision** a bank must create.
The basic relationship is:
Higher credit deterioration → Higher provisioning requirement → Lower reported profit/capital impact
Broadly:

Standard

Normal risk → prescribed standard-asset provision.

Sub-standard

Higher risk → higher provision.

Doubtful

Increasing uncertainty → provision based on applicable rules, including the secured and unsecured portions where relevant.

Loss

Essentially uncollectible → generally requires **full provision/write-off treatment** according to applicable rules.

The exact provisioning percentages depend on the applicable category, security, period and regulatory framework. (Reserve Bank of India)

14. Income Recognition and NPA

Asset classification is closely connected with **income recognition**.

When an account becomes NPA, banks generally cannot continue recognizing unrealized interest as normal income on an accrual basis.

RBI requires reversal/non-recognition treatment for unrealized income in NPAs according to the applicable rules. (Reserve Bank of India)

Therefore:

Performing loan → interest can be recognized according to applicable accrual rules

NPA → stricter income-recognition treatment

15. Upgradation of an NPA

An NPA can be upgraded when the borrower **regularizes the account according to the applicable RBI criteria**.

It is not sufficient merely to make a token payment to temporarily bring an account within the limit.

The bank must apply the applicable conditions for determining whether the account has genuinely returned to performing status.

16. Temporary Deficiencies

A bank should not automatically classify an account as NPA merely because of a temporary deficiency such as:

- Temporary shortage in drawing power
- Temporary excess over limit
- Delay in submission of stock statements
- Non-renewal of a limit on the due date

provided the account's actual recovery/performance does not otherwise meet the NPA criteria.

RBI specifically recognizes the distinction between **temporary technical deficiencies** and genuine deterioration in repayment performance. (Reserve Bank of India)

17. Example of Classification

Suppose a borrower has a term loan of:

₹10 lakh

The borrower stops paying the scheduled instalments.

Stage 1 - Payment becomes overdue.

→ Account may enter the applicable **SMA** category.

Stage 2 - Overdue period crosses the applicable NPA threshold.

→ **NPA**

Stage 3 - NPA for the initial prescribed period.

→ **Sub-standard**

Stage 4 - Remains sub-standard for more than 12 months.

→ **Doubtful**

Stage 5 - Recovery becomes essentially impossible or the asset is identified as a loss.

→ **Loss asset**

Thus:

Regular → SMA → NPA → Sub-standard → Doubtful → Loss

18. Asset Classification vs NPA Classification

A common examination question is the distinction.

Asset Classification	Meaning
Standard	Performing asset
Sub-standard	NPA for initial prescribed period
Doubtful	NPA remaining sub-standard for more than 12 months
Loss	Identified as essentially uncollectible/loss

Therefore:

All sub-standard, doubtful and loss assets are NPAs, but a standard asset is not an NPA.

19. Why Banks Classify Assets

Asset classification helps banks:

1. Measure the quality of their loan portfolio
2. Recognize stressed assets early
3. Stop inappropriate income recognition
4. Create adequate provisions
5. Assess credit risk
6. Maintain adequate capital
7. Improve transparency
8. Take recovery/resolution measures
9. Report NPAs accurately
10. Protect depositors and the banking system

20. Applicant/Borrower's Perspective

The borrower should understand that:

Paying on time

Regular repayment → Standard account

Payment delay

Short delay → SMA/early-warning category

Prolonged default

Applicable NPA threshold crossed → NPA

Continued deterioration

NPA → Sub-standard → Doubtful → Loss, depending on the circumstances and applicable rules.

An NPA classification can affect the borrowers:

- Credit history
- Future borrowing ability
- Banking relationship
- Access to additional finance

21. Bank's Perspective

The bank uses asset classification to determine:

1. Credit quality

How healthy is the loan?

2. Income recognition

Can interest be recognized as income?

3. Provisioning

How much loss protection must be created?

4. Recovery strategy

Should the bank initiate resolution/recovery measures?

5. Capital adequacy

How does the deterioration affect the bank's capital position?

22. Important Criteria at a Glance

Criterion	Standard	Sub-standard	Doubtful	Loss
Performance	Normal	NPA	NPA	NPA
Recovery concern	Normal	Emerging	Significant	Very high/identified loss
NPA?	No	Yes	Yes	Yes
Time element	Not NPA	Up to 12 months as NPA	After >12 months as sub-standard	Based on loss criteria
Provision	Prescribed standard provision	Higher	Higher, based on applicable rules	Generally full provision/write-off treatment
Income recognition	Normal applicable rules	NPA rules	NPA rules	NPA rules

(Reserve Bank of India)

23. Important Terms

Overdue

An amount is overdue when it has **not been paid by the due date**.

SMA

Special Mention Account — an early-warning classification used to identify incipient stress before an account becomes NPA.

NPA

Non-Performing Asset — an advance that meets the prescribed criteria for non-performance.

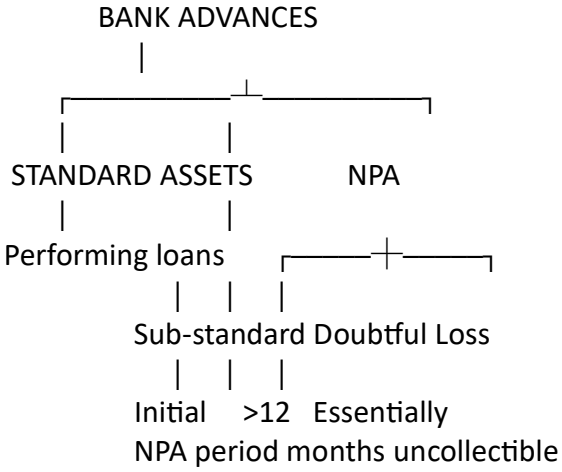
Provision

An amount set aside by the bank to cover expected/identified credit losses according to regulatory requirements.

Write-off

Accounting removal of an asset/exposure from the bank's books under applicable policy and regulatory requirements; **write-off does not automatically mean that the borrower is legally released from the repayment obligation**.

24. Easy Diagram for Examination



In one sentence

Asset classification is the RBI-prescribed process under which banks classify advances as Standard, Sub-standard, Doubtful or Loss based primarily on repayment performance, NPA status, duration of non-performance and recoverability, with the classification determining income-recognition and provisioning treatment. (Reserve Bank of India)

For exam preparation, remember: Standard → Sub-standard → Doubtful → Loss, with **NPA status generally beginning after the applicable 90-day threshold for ordinary term loans**, while **OD/CC and agricultural advances have specific criteria**. (Reserve Bank of India)

Asset Classification in Co-operative and Agricultural Banks

Asset classification means classifying a bank's advances according to their repayment performance, recoverability and the period for which they have remained non-performing. In India, the RBI's prudential framework applies to co-operative banks with specific provisions, while **agricultural advances receive special treatment because repayment is linked to crop cycles rather than ordinary monthly instalments**. (Reserve Bank of India)

For **Primary (Urban) Co-operative Banks (UCBs)**, RBI issued a revised Master Circular on Income Recognition, Asset Classification, Provisioning and Other Related Matters on **1 April 2025**. (Reserve Bank of India)

1. Basic Categories of Assets

The broad classification is:

Performing Asset

Standard Asset

Non-Performing Assets (NPAs)

1. **Sub-standard Asset**
2. **Doubtful Asset**
3. **Loss Asset**

Thus:

Standard → NPA → Sub-standard → Doubtful → Loss

The classification is based principally on **objective recovery/performance criteria**, not merely on the value of security held by the bank. (Reserve Bank of India)

2. Standard Asset
A **standard asset** is an advance that is performing normally and is not classified as an NPA.
Characteristics include:

- Repayments are being made as scheduled.
- Interest is being serviced normally.
- There is no material indication of credit impairment under the applicable prudential framework.
- The account is not otherwise required to be classified as NPA.

Even standard assets are subject to applicable **provisioning requirements**.

3. Non-Performing Asset (NPA)
An asset becomes an NPA when it **ceases to generate income for the bank** according to the prescribed regulatory criteria.
For ordinary term loans, the general criterion is:
Principal and/or interest remains overdue for more than 90 days.
However, this 90-day test is **not applied identically to every type of agricultural advance**. Agricultural advances have special crop-season-based criteria. (Reserve Bank of India)

4. Sub-standard Asset
Once an advance becomes an NPA, it is generally classified initially as a **sub-standard asset**, subject to the applicable prudential rules.
Under the general framework, an asset remains sub-standard for the initial NPA period, and an asset that has remained in the sub-standard category for **more than 12 months** moves to the doubtful category. (Reserve Bank of India)
Sequence
Standard
↓ NPA
Sub-standard
↓ More than 12 months in sub-standard category
Doubtful

5. Doubtful Asset
An asset becomes **doubtful** when it has remained in the sub-standard category for **more than 12 months**.
This indicates that the possibility of recovery has become significantly uncertain.

6. Loss Asset
A **loss asset** is one where the loss has been identified by the bank, internal/external auditor or RBI inspection, but the amount has not been completely written off.
It generally indicates that:

- Recovery is highly unlikely, or
- The security has substantially deteriorated, or
- The asset has little realistic recovery value.

The applicable regulatory provisioning/write-off requirements then apply.

7. Special Rule for Agricultural Advances

This is the **most important distinction** when studying agricultural-bank asset classification.
For eligible **direct agricultural advances**, the NPA determination is linked to the **crop season**.
Therefore:
Agricultural advances are not always classified as NPA simply because 90 days have elapsed after the due date.
RBI has specifically prescribed crop-season-based norms for agricultural advances. (Reserve Bank of India)

8. Short-Duration Crop Loans

For a loan granted for **short-duration crops**, the advance is treated as NPA when:
The instalment of principal or interest remains unpaid for two crop seasons beyond the due date.
This is the key agricultural NPA criterion. (Reserve Bank of India)
Example
Suppose:

- Farmer takes a crop loan for a short-duration crop.
- Repayment is due after the relevant harvest.
- The farmer does not pay after the first crop season.
- The amount remains unpaid through the second applicable crop season.

The loan can then meet the **NPA criterion**, subject to the applicable regulatory conditions.

9. Long-Duration Crops

For loans relating to **long-duration crops**, the NPA criterion is based on:
One crop season beyond the due date.
This reflects the fact that certain crops require a much longer period before harvesting and realisation of income.
Thus:

Type of crop	Broad NPA criterion
Short-duration crop	Unpaid for **two crop seasons** beyond due date
Long-duration crop	Unpaid for **one crop season** beyond due date

The applicable definition of short- and long-duration crops and the relevant crop-season methodology must be determined under the current RBI framework. (Reserve Bank of India)

10. Why Agricultural Loans Have Special Rules

Agricultural borrowers do not necessarily earn income every month.
The cash flow may be:
Sowing → Cultivation → Harvest → Sale → Income → Repayment
Therefore, a farmer may legitimately have no substantial cash inflow between sowing and harvest.
Applying an ordinary monthly/90-day repayment test mechanically could incorrectly classify agricultural credit.
Hence RBI's agricultural framework links NPA recognition to the **crop season and harvesting cycle**.

11. Agricultural Advances Covered

The agricultural framework covers eligible direct agricultural finance such as:

Short-term

- Crop loans
- Eligible loans against agricultural produce/warehouse receipts under applicable conditions

Medium/long-term

- Agricultural implements
- Tractors and farm machinery
- Irrigation
- Farm development
- Other eligible agricultural production/development activities

RBI's framework specifically identifies direct finance to farmers for crop production and agricultural production/development needs. (Reserve Bank of India)

12. Kisan Credit Card (KCC) and Asset Classification

KCC is particularly important because it is a common form of agricultural credit.

The bank considers:

- Crop
- Crop season
- Due date
- Amount outstanding
- Repayment
- Nature of the agricultural activity

If repayment is not made according to the applicable crop-season-based requirements, the account may become NPA according to the relevant agricultural asset-classification rules.

Therefore:

KCC overdue ≠ automatically NPA after 90 days in every case.

The applicable **agricultural/crop-season criteria** must be examined.

13. Co-operative Banks and Agricultural Lending

Co-operative banks play a major role in agricultural finance, particularly through:

- State Co-operative Banks
- District Central Co-operative Banks (DCCBs)
- Primary Agricultural Credit Societies (PACS), within the cooperative credit structure

RBI has issued prudential guidance concerning agricultural advances and has specifically addressed agricultural asset-classification norms for State Co-operative Banks and Central Co-operative Banks. (Reserve Bank of India)

For **Primary Urban Co-operative Banks**, RBI's 2025 Master Circular contains the applicable IRAC framework for UCBs. (Reserve Bank of India)

14. OD and CC Accounts in Co-operative Banks

For overdraft and cash-credit accounts, NPA determination involves the concept of an **"out of order" account**, rather than simply applying the term-loan instalment test.

The bank considers matters such as:

- Outstanding balance
- Sanctioned limit
- Drawing power
- Credits
- Interest servicing
- Account operations

Therefore:

Term Loan → overdue criterion

OD/CC → out-of-order criterion

This distinction is important in both commercial and applicable co-operative banking contexts. (Reserve Bank of India)

15. Security Does Not Prevent NPA Classification

Suppose:

Agricultural loan = ₹5 lakh

Land security = ₹10 lakh

The borrower fails to repay according to the applicable NPA criteria.

The loan can still become an **NPA**.

The existence of:

- Land
- Property
- Gold
- Guarantor
- Other collateral

does not by itself make the account a standard asset.

RBI's approach is based on the **record of recovery**, while security and its realisable value are relevant to provisioning and recovery treatment. (Reserve Bank of India)

16. Provisioning After Classification

Asset classification determines the level of **provisioning** required.

Standard

Prescribed standard-asset provision.

Sub-standard

Higher provision because the asset has become an NPA.

Doubtful

Higher provision reflecting increasing uncertainty of recovery, with treatment depending on the applicable secured/unsecured portions and other regulatory requirements.

Loss

Generally, requires the prescribed treatment for identified losses, including full provision/write-off as applicable.

Thus:

Deteriorating asset quality → Higher provisioning requirement

17. Income Recognition
Asset classification also affects **interest income recognition**.
For a performing account:
Interest can be recognized according to applicable accrual rules.
For an NPA:
Unrealized interest cannot simply continue to be treated as normal realized income.
RBI's fundamental principle is that income recognition should be **objective and based on the record of recovery**.
(Reserve Bank of India)

18. Borrower-Wise Classification
Asset classification is not simply a matter of looking at one facility in isolation.
Applicable RBI rules require banks to consider the **borrower-wise status** in relevant circumstances rather than artificially keeping one facility standard while another facility of the same borrower has deteriorated.
This prevents manipulation of asset quality through facility-by-facility treatment.

19. Agricultural Loan Example
Suppose a farmer obtains a crop loan:
Loan = ₹2,00,000
Short-duration crop
Due after the relevant crop cycle.
If principal/interest remains unpaid through:
First crop season → overdue
Second crop season → continues unpaid
The account may meet the agricultural NPA criterion.
It can then progress through:
NPA → Sub-standard → Doubtful → Loss
depending on the period and recoverability.

20. Comparison: Ordinary Loan vs Agricultural Loan

Feature	Ordinary Term Loan	Eligible Agricultural Advance
Normal NPA basis	More than 90 days overdue	Crop-season-based
Repayment basis	Instalment/due date	Crop/harvest cycle
Short-duration crop	Not applicable	2 crop seasons
Long-duration crop	Not applicable	1 crop season
OD/CC	Out-of-order criteria	Applicable facility-specific rules
Security	Does not prevent NPA	Does not prevent NPA
Provisioning	Based on asset category	Based on applicable asset category/rules

21. Asset Classification Flow

Ordinary Bank Advance
Regular
↓
Standard Asset
↓ *NPA criteria met*
NPA
↓
Sub-standard
↓
Doubtful
↓
Loss

Agricultural Advance
Regular crop loan
↓
Standard Asset
↓
Crop-season test
Short-duration crop → 2 crop seasons
Long-duration crop → 1 crop season
↓
NPA
↓
Sub-standard
↓
Doubtful
↓
Loss

22. Important Criteria — Quick Revision Table

Asset Category	Main Criterion
Standard	Performing; not NPA
NPA	Ceases to generate income under applicable criteria
Sub-standard	NPA in the initial prescribed period
Doubtful	Sub-standard for more than 12 months
Loss	Loss identified; essentially uncollectible
Ordinary term loan NPA	Principal/interest overdue >90 days
OD/CC NPA	Account becomes "out of order" under applicable criteria
Short-duration crop loan	Unpaid for 2 crop seasons beyond due date
Long-duration crop loan	Unpaid for 1 crop season beyond due date

23. Co-operative vs Agricultural Asset Classification

It is useful to understand that these are **two different dimensions**:

Co-operative bank classification

Concerns **which type of banking institution** is applying the prudential framework.

Agricultural classification

Concerns **the nature of the advance and its repayment cycle**.

Therefore, an agricultural loan made by an eligible co-operative bank may simultaneously be:

A co-operative bank's agricultural advance + an asset subject to crop-season-based NPA criteria.

24. Key Examination Answer

Asset classification in co-operative and agricultural banking is the process of classifying advances according to their performance and recoverability as Standard, Sub-standard, Doubtful or Loss. Co-operative banks follow the applicable RBI prudential IRAC framework. For agricultural advances, special crop-season-based NPA norms apply because agricultural repayment depends on harvesting cycles. A short-duration crop loan generally becomes NPA when principal or interest remains unpaid for two crop seasons beyond the due date, while a long-duration crop loan generally becomes NPA when it remains unpaid for one crop season beyond the due date. Once an agricultural advance becomes NPA, it is subsequently classified as sub-standard, doubtful or loss according to the applicable duration and recoverability criteria. (Reserve Bank of India)

Note: The exact regulatory treatment can differ by type of co-operative institution and category of agricultural advance, so for an exam or banking-practice answer it is best to identify the **specific bank category (UCB, State Co-operative Bank, DCCB, RRB, etc.)** and the applicable RBI circular.

Asset Classification by Development Banks

Asset classification in development banks means the systematic classification of loans, advances, investments and other credit exposures according to their **performance, repayment status, degree of credit risk and recoverability**.

Development financial institutions provide substantial **medium- and long-term finance** for projects such as infrastructure, industries, MSMEs, agriculture, exports and other developmental activities. Consequently, asset-quality assessment is particularly important because their exposures may have **long tenures, project risks and large individual amounts**.

In India, the exact prudential framework depends on the **legal and regulatory status of the particular development financial institution**. It should therefore not be assumed that every institution called a "development bank" follows exactly the same asset-classification rules as a commercial bank.

1. What is a Development Bank?

A development bank/development financial institution is primarily established to provide finance and financial assistance for **economic and developmental purposes**, particularly medium- and long-term investment.

Examples of institutions performing developmental-finance functions in India include Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD) and National Bank for Financing Infrastructure and Development (NaBFID).

2. Why Asset Classification is Necessary

Development banks classify assets to:

- Measure loan-portfolio quality
- Identify stressed assets
- Recognize credit deterioration
- Prevent recognition of unrealized income
- Determine provisioning requirements
- Estimate potential credit losses
- Initiate restructuring/recovery measures
- Protect institutional capital
- Maintain financial stability
- Present a realistic financial position

3. Broad Classification of Loan Assets

Under a traditional prudential asset-classification approach, credit assets can broadly be understood as:

Performing Assets

→ **Standard Assets**

and

Non-Performing/Stressed Assets

→ **Sub-standard Assets**

→ **Doubtful Assets**

→ **Loss Assets**

The precise definitions and time thresholds, however, must be taken from the regulatory framework applicable to the particular institution.

4. Standard Asset

A **standard asset** is an asset that is performing normally and does not meet the applicable criteria for classification as a non-performing asset.

Characteristics generally include:

- Principal repayments are regular.
- Interest is being serviced.
- Borrower's financial position remains acceptable.
- Project operations are satisfactory.
- No serious recovery problem has emerged.

Example

A development institution lends ₹100 crore to establish a manufacturing facility.

The project is operating and the borrower pays:

- Interest on time
- Principal instalments on time

The exposure continues to be treated as a **performing/standard asset**, subject to the applicable regulatory framework.

5. Non-Performing Asset

A **non-performing asset (NPA)** is broadly an exposure that has ceased to perform according to the applicable prudential criteria.

For institutions to which RBI's conventional 90-day IRAC framework applies, a term-loan exposure generally becomes non-performing when **interest and/or principal remains overdue for more than 90 days**.

However:

The exact NPA criterion applicable to a development bank depends upon its regulatory classification and the RBI or other statutory framework governing that institution.

This qualification is particularly important for specialized development institutions.

6. Sub-standard Asset

A **sub-standard asset** is generally the first stage of NPA classification under the traditional IRAC framework.

It represents an exposure where:

- Repayment has become irregular;
- Credit weakness has emerged;
- Recovery risk has increased;
- The asset has met applicable NPA criteria.

Under the conventional banking IRAC framework, an asset remaining NPA for **up to 12 months** is generally regarded as sub-standard.

7. Doubtful Asset

A **doubtful asset** represents a more serious deterioration in asset quality.

Under the traditional classification sequence:

Standard

↓

Sub-standard

↓ prolonged non-performance

Doubtful

The probability of full recovery becomes increasingly uncertain.

The institution may examine:

- Value of security
- Project viability
- Borrower's financial position
- Cash flows
- Guarantors
- Recovery prospects
- Legal enforceability

8. Loss Asset

A **loss asset** represents the most serious category.

It broadly refers to an asset where loss has been identified and recovery is considered extremely unlikely, even though the exposure may not yet have been completely written off.

Examples can include situations involving:

- Failed project
- Insolvent borrower
- Worthless or severely impaired security
- Serious fraud
- Non-existent assets
- Borrower liquidation
- Extremely poor recovery prospects

The applicable framework generally requires very high/full provisioning or write-off treatment for identified losses.

9. Typical Classification Sequence

A simplified sequence is:

Loan sanctioned
↓
Project financed
↓
Regular servicing
↓
STANDARD ASSET
↓
Repayment problems develop
↓
Applicable NPA criterion satisfied
↓
SUB-STANDARD ASSET
↓
Weakness continues
↓
DOUBTFUL ASSET
↓
Recovery becomes essentially impossible/loss identified
↓
LOSS ASSET

10. Special Nature of Development-Bank Lending

Asset classification in development finance requires special attention because development institutions often finance:

Infrastructure

- Roads
- Ports
- Airports
- Power projects
- Railways
- Urban infrastructure

Industrial projects

- Manufacturing plants
- Steel
- Cement
- Chemicals
- Engineering

MSMEs

- Machinery
- Expansion
- Technology
- Working capital through eligible facilities

Agriculture and rural development

- Irrigation
- Warehousing
- Rural infrastructure
- Agricultural projects

Export industries

- Manufacturing
- Export-oriented projects
- International trade infrastructure

These projects may take several years before generating adequate cash flows.

11. Project Finance and Asset Classification

Development institutions frequently provide **project finance**.

A project passes through: **Planning → Construction → Commissioning → Commercial operation → Revenue generation → Debt repayment**

Asset quality can deteriorate if:

- Construction is delayed
- Project costs increase substantially
- Regulatory approvals are delayed
- Demand projections fail
- Revenue is insufficient
- Borrower runs out of capital
- Project becomes commercially unviable

Therefore, project monitoring is critical.

12. Moratorium

Development loans frequently provide a **moratorium** before scheduled principal repayment begins.

Example:

Loan = ₹500 crore

Construction period = 3 years

Principal repayment begins after the agreed moratorium.

A properly sanctioned moratorium is not itself a default.

The bank must distinguish between:

"Payment is not contractually due yet"

and

"Payment became due but the borrower failed to pay."

13. Restructured Assets

Development projects may encounter genuine difficulties requiring modification of financing terms.

Restructuring can involve:

- Extension of tenure
- Change in repayment schedule
- Modification of interest terms
- Additional finance
- Other permitted resolution measures

However:

Restructuring does not automatically mean that an impaired asset becomes a standard asset.

Its classification depends on the applicable prudential/resolution framework.

14. Security in Development Lending

Development institutions may obtain security over:

- Land
- Buildings
- Plant and machinery
- Project assets
- Receivables
- Project revenues
- Escrow accounts
- Shares
- Guarantees
- Other eligible assets

However, an important principle remains:

Strong collateral does not by itself make a poorly performing loan a performing asset.

Asset classification is fundamentally concerned with the **performance and recoverability of the exposure**.

15. Project Viability

Development banks place particular importance on **project viability**.

They assess:

Technical viability

Can the project technically operate?

Economic viability

Does the project create sufficient economic value?

Financial viability

Can it generate enough cash to meet operating expenses and debt obligations?

Commercial viability

Is there adequate demand for the product/service?

Management viability

Does the promoter have the ability to execute and operate the project?

16. Factors Considered in Asset Classification

A development institution may consider:

1. Repayment performance
2. Interest servicing
3. Principal outstanding
4. Days overdue
5. Project completion
6. Commercial operations
7. Cash flows
8. Financial statements
9. Debt-service capacity
10. Security
11. Project viability
12. Industry conditions
13. Borrower/promoter financial strength
14. Restructuring status
15. Recovery prospects

17. Income Recognition

Asset classification affects **income recognition**.

Performing Asset

Interest is generally recognized according to the applicable accounting/accrual framework.

Non-Performing Asset

Unrealized interest is subject to restrictive income-recognition treatment under the applicable prudential framework.

This prevents an institution from reporting **income that it has little realistic prospect of collecting**.

18. Provisioning

Provisioning means setting aside funds to absorb potential or identified credit losses.

The basic relationship is:

Standard

→ Normal/prescribed provision

Sub-standard

→ Higher credit risk → Higher provision

Doubtful

→ Significant recovery uncertainty → Greater provisioning

Loss

→ Identified/near-certain loss → Full or very high provisioning/write-off treatment as prescribed

The exact percentages must be determined under the regulatory framework applicable to the specific development institution.

19. Secured and Unsecured Portions

For seriously impaired loans, the institution may need to determine:

Total outstanding

↓

Realizable value of eligible security

↓

Secured portion

and

Unsecured portion

This becomes particularly relevant for provisioning and estimating likely recovery.

20. Example

Suppose a development institution provides:

₹200 crore to an industrial project.

Stage 1 — Normal

The factory operates successfully and instalments are paid.

Classification: Standard

Stage 2 — Financial stress

Sales fall and repayment become overdue.

The bank begins closer monitoring.

Stage 3 — NPA

The applicable NPA criteria are satisfied.

Classification: Sub-standard, under a framework following the conventional classification sequence.

Stage 4 — Continued default

The exposure remains impaired beyond the applicable period.

Classification: Doubtful

Stage 5 — Project failure

The factory closes permanently, assets have little recoverable value and loss is identified.

Classification: Loss Asset

21. Development Bank vs Commercial Bank

Commercial Bank	Development Bank/DFI
Large retail and corporate portfolio	Greater developmental/project-finance orientation
Short, medium and long-term loans	Often medium/long-term finance
Housing, personal, MSME, corporate loans	Infrastructure, industry, MSME, rural/development projects
Repayment often starts relatively quickly	Moratorium/construction period may be significant
Retail credit is important	Project viability is particularly important
Large number of smaller accounts	May have fewer but very large exposures
Monitoring focuses on borrower and account	Project monitoring can be especially intensive

22. Early Warning Signals

Development banks should identify financial stress before the loan becomes seriously impaired.
Warning signals include:

- Project delays
- Cost overruns
- Declining revenue
- Operating losses
- Repeated repayment delays
- Deteriorating debt-service coverage
- Promoter disputes
- Regulatory problems
- Diversion of funds
- Fraud
- Major litigation
- Loss of important customers
- Failure to bring promoter contribution

Early detection enables timely corrective action.

23. Recovery of Stressed Development Loans

When an asset deteriorates, the institution may consider, as legally and commercially appropriate:

- Corrective action
- Additional monitoring
- Resolution/restructuring
- Sale/transfer of exposure were permitted
- Enforcement of security
- Insolvency proceedings
- Legal recovery
- Compromise/settlement under applicable policies
- Write-off

The objective is to **maximize recovery and minimize loss**.

24. Asset Classification from the Development Bank's Perspective

The institution asks:

Is the borrower paying?

↓

Is the project viable?

↓

Is the project generating sufficient cash flow?

↓

Is the exposure performing under applicable prudential criteria?

↓

What is the probability of recovery?

↓

How should the asset be classified?

↓

How much provision is required?

↓

What corrective/recovery action is necessary?

25. Quick Examination Table

Asset	Meaning
Standard Asset	Performing normally
NPA	Meets applicable non-performance criteria
Sub-standard	Initial NPA category under conventional IRAC classification
Doubtful	Prolonged NPA with significant recovery uncertainty
Loss Asset	Loss identified; recovery considered extremely unlikely

26. Important Examination Point

Do **not** write that every development bank automatically follows exactly the same **90-day NPA + 12-month sub-standard** rules.

The safer and more technically correct answer is:

The precise asset-classification and provisioning norms applicable to a development bank depend upon its statutory and regulatory status and the prudential framework prescribed by RBI or the competent regulator. Where the conventional IRAC framework applies, assets are broadly classified as Standard, Sub-standard, Doubtful and Loss according to repayment performance, duration of non-performance and recoverability.

In Simple Terms
Development bank asset classification
Standard
→ *loan is performing*
Sub-standard
→ *loan has become non-performing*
Doubtful
→ *non-performance continues and recovery becomes increasingly uncertain*
Loss
→ *loss has effectively been identified*
The central principle is that development institutions must **recognize credit deterioration realistically, stop inappropriate recognition of unrealized income, make adequate provisions, monitor stressed projects and take timely resolution or recovery action**.
Important Aspects of Recovery by Banks
Recovery of bank advances means the process by which a bank obtains repayment of the **principal, interest and other lawful dues** from borrowers. It includes normal repayment as well as measures taken when a loan becomes overdue or non-performing.
Effective recovery is essential because banks lend largely from **public deposits and other borrowed funds**. Poor recovery can lead to **NPAs, provisioning requirements, reduced profitability and capital stress**.

1. Objectives of Recovery
The main objectives are:
1. Recover the bank's money.
2. Minimize credit losses.
3. Protect depositors' interests.
4. Reduce NPAs.
5. Preserve the value of securities.
6. Resolve viable stressed borrowers where possible.
7. Take timely action against willful/defaulting borrowers.
8. Maintain the quality of the bank's loan portfolio.

2. Early Identification of Stress
Recovery should ideally begin **before an account becomes a serious NPA**.
Banks monitor early-warning indicators such as:
- Missed instalments
- Delayed interest payments
- Frequent overdrawing
- Declining account turnover
- Cheque returns
- Declining sales
- Business losses
- Deteriorating cash flows
- Diversion of funds
- Deterioration in collateral
- Adverse changes in the borrower's financial position

Principle

Early detection generally provides better recovery opportunities than waiting until the account becomes severely impaired.

3. Classification of the Account

The bank must determine the appropriate asset classification under the applicable RBI/regulatory framework.

Broadly:

Standard → NPA → Sub-standard → Doubtful → Loss

The classification affects:

- Income recognition
- Provisioning
- Recovery strategy
- Regulatory reporting

4. Contact and Communication with the Borrower

When an account becomes overdue, the bank should communicate with the borrower.

The bank may:

- Send reminders
- Contact the borrower
- Explain the overdue amount
- Request repayment
- Understand the reason for default
- Discuss viable resolution options

The purpose is not merely collection but also **identification of the cause of financial stress**.

5. Determine the Cause of Default

A critical recovery step is to distinguish between different types of borrowers.

Temporary financial difficulty

Example:

A business has a temporary cash-flow shortage but remains fundamentally viable.

Structural financial weakness

The business model itself may no longer be viable.

Wilful default

The borrower may have the capacity to pay but deliberately fails to honour obligations, subject to the applicable legal/regulatory determination.

Fraud/diversion

Funds may have been diverted or obtained through fraudulent means.

The recovery strategy should correspond to the underlying problem.

6. Restructuring/Resolution of Viable Accounts

If a borrower is fundamentally viable but faces temporary stress, the bank may consider an appropriate **resolution/restructuring mechanism**, where permitted under the applicable regulatory framework.

Possible measures may include:

- Rescheduling repayments
- Extending tenure
- Changing repayment structure
- Permitted restructuring of facilities
- Additional finance in appropriate cases

Important

Restructuring should not be used merely to **hide an existing loss or avoid proper NPA classification**.

7. One-Time Settlement (OTS)

A bank may, under its approved policy and applicable rules, enter into a **One-Time Settlement** with a borrower. The borrower agrees to pay an agreed settlement amount, generally according to specified terms.

Example:

Outstanding dues = ₹10 lakh

The bank may agree to settle for a specified amount based on:

- Recovery prospects
- Security value
- Borrower's financial position
- Cost/time of litigation
- Settlement policy

OTS terms are **case-specific** and do not create an automatic right for every borrower.

8. Recovery Through Security

Where a loan is secured, the bank may recover its dues by enforcing the security, subject to applicable law.

Security can include:

- Mortgage
- Hypothecation
- Pledge
- Lien
- Assignment
- Guarantee
- Other legally enforceable security

9. SARFAESI Act

The **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act)** provides a statutory mechanism for eligible secured creditors to enforce certain security interests without the ordinary requirement of first obtaining a court decree, subject to the Act's conditions and procedures.

Broadly, the process may involve:

NPA
↓
Demand notice
↓
Opportunity to regularize/pay
↓
Enforcement measures
↓
Possession of secured asset
↓
Sale of asset
↓
Adjustment of recovery proceeds

The bank must comply with the statutory requirements and applicable rules.

10. Debt Recovery Tribunals (DRTs)

The **Recovery of Debts and Bankruptcy Act, 1993** provides a specialized framework for recovery of debts due to banks and financial institutions through **Debt Recovery Tribunals (DRTs)**.

Banks can pursue eligible recovery claims through the appropriate statutory mechanism.

The DRT framework is particularly relevant for substantial banking debts.

11. Insolvency and Bankruptcy Code (IBC)

The **Insolvency and Bankruptcy Code, 2016** provides a time-bound insolvency-resolution framework for eligible corporate and other debtors.

For corporate borrowers, a financial creditor such as a bank can initiate the **Corporate Insolvency Resolution Process (CIRP)** when the statutory requirements are satisfied.

The broad process is:

Default
↓
IBC application
↓
Admission by NCLT, if requirements are satisfied
↓
CIRP
↓
Resolution plan / other statutory outcome

The objective is generally **resolution and value maximization**, rather than simply immediate asset seizure.

12. Lok Adalat

For appropriate cases, banks may use **Lok Adalat** for settlement of eligible disputes/recovery claims.
Advantages can include:

- Relatively simple procedure
- Lower cost
- Settlement-oriented approach
- Faster resolution in suitable cases

They are particularly useful for appropriate smaller-value or settlement-oriented cases.

13. Civil Courts

Banks may also pursue recovery through the **ordinary judicial system**, where appropriate.
This may be necessary when:

- Statutory recovery mechanisms do not apply
- The nature of the claim requires court intervention
- Legal disputes concerning the debt/security need adjudication

14. Recovery Agents

Banks may use authorized recovery agents, subject to applicable RBI requirements and the bank's policies.
Recovery agents must follow:

- Applicable law
- RBI instructions
- Fair-practice requirements
- Privacy/confidentiality requirements
- Appropriate communication standards

Important

Recovery does **not** permit:

- Threatening the borrower
- Harassment
- Intimidation
- Violence
- Abusive behaviour
- Unlawful disclosure of information

Banks remain responsible for ensuring that recovery practices comply with applicable requirements.

15. Recovery Through Sale of Security

If legally permitted, a secured asset may be sold to recover the bank's dues.
Examples:

- House
- Commercial property
- Land
- Machinery
- Vehicles
- Other secured assets

The bank must follow the applicable statutory procedure for:

- Possession
- Valuation
- Notice
- Sale
- Auction/private sale were permitted
- Appropriation of proceeds

16. Valuation of Security

Before enforcement/sale, the bank should assess the **realizable value** of the security.
The bank considers:

- Current market value
- Forced-sale value, where relevant
- Condition of asset
- Legal title
- Marketability
- Encumbrances
- Expected recovery expenses

The objective is to maximize **net recoverable value**, not merely the theoretical market value.

17. Guarantees

Where a loan is supported by a guarantee, the bank may invoke/enforce the guarantee according to:

- Guarantee terms
- Applicable law
- Regulatory requirements

A guarantee provides an additional recovery avenue but does not necessarily guarantee complete recovery.

18. Insurance Claims

Where the relevant loan/security is insured and the loss falls within the policy coverage, the bank may pursue an eligible insurance claim.
Examples:

- Damage to insured property
- Certain agricultural losses
- Insured machinery/assets

Insurance is **not a substitute for credit appraisal** and recovery depends on the policy's terms and coverage.

19. Recovery from Agriculture Loans

Agricultural recovery requires special consideration because farm income is seasonal.
Banks consider:

- Crop cycle
- Harvest
- Commodity prices
- Natural calamities
- Crop failure
- Government relief measures

- Applicable restructuring/rescheduling provisions
- Insurance claims

Therefore, agricultural recovery should distinguish between **genuine crop-related distress** and deliberate non-payment.

20. Recovery from MSMEs

For MSME borrowers, banks may consider:

- Current business viability
- Cash-flow problems
- Receivables
- Inventory
- Orders
- Promoter contribution
- Working-capital cycle
- Security
- Potential restructuring/resolution

A viable MSME may be better recovered through **business revival** than immediate liquidation.

21. Recovery from Housing Loans

For housing loans, recovery may involve:

- Communication with borrower
- Restructuring where eligible/permitted
- Regularization
- Settlement
- Enforcement of mortgage/security
- Sale of property through legally prescribed procedures

The bank must follow applicable statutory and contractual procedures.

22. Recovery from Personal Loans

For unsecured personal loans, the bank generally has fewer collateral-based recovery options.
Recovery may therefore rely more heavily on:

- Direct communication
- Repayment arrangements
- Settlement
- Legal proceedings
- Credit reporting
- Other lawful recovery mechanisms

23. Write-Off

A **write-off** is an accounting treatment under which the bank removes an amount from its books, in whole or in part, according to its applicable policy and regulatory/accounting framework.

Important distinction

Write-off does not automatically mean waiver of the borrower's liability.

The bank may continue recovery action where legally permissible.

24. Waiver vs Write-Off

Write-Off	Waiver
Primarily accounting/financial treatment	Relinquishment of liability, subject to applicable authority/terms
Does not automatically extinguish debt	May extinguish specified liability
Recovery can continue where permitted	Recovery of waived amount generally ceases
Used to recognize/remove unrecoverable exposure from books	Used under specific policy/legal arrangements

25. Provisioning and Recovery

Banks must make appropriate **provisions** for credit losses according to the applicable regulatory framework.

Relationship:

Loan deterioration

→ **NPA**

→ **Provision**

→ **Recovery/Resolution**

→ **Final loss/recovery**

Provisioning protects the bank against the financial impact of loans that may not be fully recovered.

26. Priority of Recovery

A bank generally seeks the most appropriate and economic recovery strategy.

A simplified approach is:

Regularisation

↓ if not possible

Resolution/Restructuring

↓ if viable

Settlement

↓ or

Security enforcement

↓ where appropriate

Legal/insolvency recovery

The actual sequence varies according to the borrower, security, amount, applicable law and regulatory framework.

27. Legal Documentation

Effective recovery depends heavily on proper documentation.

The bank should maintain:

- Loan agreement
- Demand promissory note, where applicable
- Security documents
- Mortgage documents
- Hypothecation documents
- Guarantee documents
- Statements of account
- Repayment records
- Notices
- Valuation reports
- Correspondence
- Evidence of default

Poor documentation can weaken the bank's recovery position.

28. Limitation

Banks must be conscious of **limitation periods** applicable to their claims and security rights.

Failure to take appropriate action within the legally applicable period can adversely affect recovery rights.

Therefore:

Recovery action should be timely, properly documented and legally reviewed.

29. Ethical and Fair Recovery

Recovery must balance:

Bank's right

The bank has a legitimate right to recover money lent under the contract and applicable law.

Borrower's rights

The borrower is entitled to:

- Fair treatment
- Proper notice where required
- Due process
- Privacy
- Respectful communication
- Appropriate grievance-redressal mechanisms

Therefore:

Strong recovery does not mean coercive or unlawful recovery.

30. Recovery from Willful Defaulters

Banks and regulators distinguish ordinary financial difficulty from **wilful default**, where the applicable regulatory criteria are satisfied.

Examples of conduct potentially relevant under the regulatory framework include:

- Deliberate non-payment despite capacity
- Diversion of borrowed funds
- Siphoning of funds
- Disposal/removal of secured assets in an unauthorized manner

The classification of a borrower as a wilful defaulter must follow the applicable RBI framework and due process.

31. Fraudulent Borrowing

If fraud is suspected, the bank may need to:

- Investigate
- Preserve evidence
- Report to appropriate authorities where required
- Protect remaining assets
- Take recovery action
- Initiate appropriate legal proceedings

Fraud recovery is different from ordinary financial distress.

32. Technology in Recovery

Modern banks use technology for:

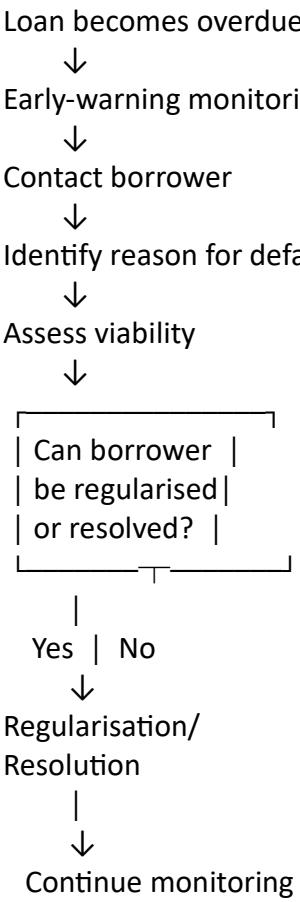
- Early-warning systems
- Automated overdue alerts
- Credit monitoring
- Data analytics
- Collection tracking
- Digital payment reminders
- Portfolio-level risk monitoring

This enables banks to identify stressed accounts earlier.

33. Important Recovery Methods

Method	Main Purpose
Regularization	Bring overdue account back to regular status
Restructuring/Resolution	Assist viable stressed borrower under applicable framework
One-Time Settlement	Negotiated settlement
SARFAESI	Enforcement of eligible security interests
DRT	Recovery through specialised tribunal
IBC	Insolvency resolution
Lok Adalat	Settlement of eligible disputes
Civil Court	Judicial recovery
Guarantee invocation	Recovery from eligible guarantor
Security sale	Realize collateral
Write-off	Accounting treatment; recovery may continue

34. Recovery Process — Complete Flow



35. Bank's Perspective vs Borrower's Perspective

Bank's Perspective	Borrower's Perspective
Recover principal	Repay debt
Recover interest	Manage repayment burden
Minimize loss	Avoid unnecessary enforcement
Protect security	Protect property/assets
Reduce NPA	Preserve credit standing
Take timely action	Obtain fair opportunity to resolve
Maximize recovery value	Seek appropriate settlement where eligible
Follow legal procedures	Exercise legal rights
Protect depositors	Avoid loss of assets

36. Principles of Effective Recovery

A bank should follow these principles:

1. Early action

Do not wait until the loan becomes irrecoverable.

2. Correct diagnosis

Understand why the borrower defaulted.

3. Viability assessment

Revive viable businesses where appropriate.

4. Proper documentation

Maintain enforceable records.

5. Adequate security

Protect and preserve collateral.

6. Legal compliance

Use appropriate statutory mechanisms.

7. Fair treatment

Avoid harassment and unlawful collection practices.

8. Cost-effectiveness

Choose the recovery method that maximizes net recovery.

9. Transparency

Maintain accurate records and communicate appropriately.

10. Timely enforcement

Do not allow security or limitation rights to deteriorate.

37. Short Examination Answer

Recovery of bank advances is the process of obtaining repayment of principal, interest and other lawful dues from borrowers. Important aspects include early identification of stressed accounts, proper asset classification, borrower communication, assessment of the cause of default and viability, restructuring/resolution of viable accounts where permitted, settlement, enforcement of security, recovery through SARFAESI/DRT/IBC and other applicable mechanisms, invocation of guarantees, proper documentation, provisioning, timely legal action, and fair and responsible recovery practices. The ultimate

objective is to maximize recovery, minimize loss, reduce NPAs and protect the interests of depositors while respecting the borrower's legal rights.

Key formula to remember
Early Detection + Proper Appraisal + Monitoring + Resolution + Legal Recovery + Security Enforcement + Fair Practice = Effective Bank Recovery.

Definition of NPA
NPA stands for **Non-Performing Asset**.
Definition
A Non-Performing Asset (NPA) is a loan or advance of a bank that ceases to generate income for the bank because the borrower has failed to meet the prescribed repayment obligations within the period specified under the applicable regulatory norms.
Under the RBI framework applicable to ordinary **term loans**, an account is generally classified as an NPA when **interest and/or instalment of principal remains overdue for more than 90 days**.
In simple words
Loan repayment is regular → Standard Asset
Loan repayment becomes overdue → SMA/early stress
Applicable NPA criterion is crossed → NPA

Examples
Example 1 — Term Loan
A borrower has an EMI due on 1 January.
If the principal/interest remains unpaid and the account crosses the applicable **90-day threshold**, the loan becomes an **NPA**, subject to RBI's detailed rules.
Example 2 — Cash Credit/Overdraft
For **CC/OD accounts**, NPA classification is based on the applicable **"out of order"** criteria rather than simply applying the ordinary term-loan 90-day test.
Example 3 — Agricultural Loan
Agricultural advances have **special crop-season-based criteria**. For eligible agricultural advances, the NPA test is linked to the crop season rather than mechanically applying the ordinary 90-day rule.

NPA Categories
Once an advance becomes an NPA, it is broadly classified as:
NPA
→ **Sub-standard Asset**
→ **Doubtful Asset**
→ **Loss Asset**
These classifications reflect increasing degrees of deterioration and uncertainty regarding recovery.
One-line examination definition
"A Non-Performing Asset (NPA) is a loan or advance that has ceased to generate income for the bank and satisfies the applicable regulatory criteria for non-performance."
Important: NPA classification is based primarily on the prescribed **record of recovery/performance**, and the mere existence of collateral does not by itself prevent a loan from becoming an NPA.

Module A: GENERAL BANKING
Chapter 8: Grievance Redressal Mechanism in Banks and Banking Ombudsman Scheme.
8.1 Objectives
8.2 Introduction
8.3 Meaning of Grievance
8.4 Common Grievances of the Small Customers
8.5 Model Policy on Grievance Redressal and its Principles
8.6 Customer Complaint
8.7 Present Grievance Redressal Mechanism in Banks
8.8 Banking Ombudsman Scheme

Grievance Redressal Mechanism in Banks

Grievance redressal mechanism is the system established by a bank to receive, investigate, resolve, and monitor complaints raised by customers regarding banking products, services, transactions, staff conduct, charges, delays, or other deficiencies.

In India, banks are required to maintain an effective customer grievance-redressal system and provide customers with appropriate escalation channels.

1. Main stages of grievance redressal

Customer → Branch/Bank → Nodal Officer/Grievance Officer → RBI Ombudsman

Stage	Authority	What the customer does
1. Bank branch/customer service	Branch Manager / Customer Service Officer	Lodge the complaint with the branch or bank
2. Bank's grievance cell	Bank's designated Grievance Redressal/Nodal Officer	Escalate if the branch does not resolve the complaint
3. Principal/Nodal Officer	Bank's higher-level grievance authority	Seek review of an unresolved complaint
4. RBI Ombudsman	RBI Integrated Ombudsman Scheme	Approach RBI when the bank does not satisfactorily resolve the complaint or does not respond within the prescribed period
5. Other legal remedies	Consumer commission/court or other competent authority	Available where appropriate, depending on the nature of the dispute

2. How to lodge a complaint

A customer should generally:

1. **Identify the problem** — e.g., unauthorized transaction, wrong debit, excessive charges, ATM failure, loan-related issue, delay, or poor service.
2. **Contact the bank** through the branch, customer-care channel, website, mobile banking app, email, or other officially provided channel.
3. **Give complete details**, including:
    - Account/customer details as appropriate
    - Date and nature of the transaction
    - Amount involved
    - Description of the grievance
    - Supporting documents/screenshots
4. **Obtain the complaint/reference number.**
5. **Wait for the bank's response** within the applicable time.
6. **Escalate** to the bank's designated grievance-redressal authority if the response is unsatisfactory or the complaint remains unresolved.

3. RBI Integrated Ombudsman Scheme

The **Reserve Bank – Integrated Ombudsman Scheme, 2021** provides a centralized mechanism for cost-free resolution of complaints against RBI-regulated entities, including banks, in cases involving deficiency in service.

A customer can approach the RBI Ombudsman when:

- the complaint has first been made to the regulated entity;
- the entity has rejected the complaint wholly or partly, and the customer is not satisfied; **or**
- the customer has not received a satisfactory response within the prescribed period.

The complaint can be filed through RBI's **Complaint Management System (CMS)**.

4. Important principles

An effective bank grievance system should provide:

- **Accessibility** – customers should have easy channels to complain.
- **Acknowledgement** – complaints should receive a reference/acknowledgement.
- **Timely resolution** – complaints should be handled within applicable timelines.
- **Fairness** – complaints should be examined objectively.
- **Transparency** – customers should know the status and escalation procedure.
- **Accountability** – responsibility should be assigned to appropriate officers.
- **Record keeping** – complaints and their resolutions should be properly documented.
- **Root-cause analysis** – recurring complaints should be studied to prevent repetition.

5. Examples

Example 1 – ATM cash not received:

If the account is debited but cash is not dispensed, the customer first complains to the bank and obtains a complaint number. If the matter is not satisfactorily resolved, it can be escalated through the bank's grievance mechanism and, where applicable, to the RBI Ombudsman.

Example 2 – Unauthorized electronic transaction:

The customer should immediately notify the bank through its designated reporting channel and follow the bank's procedure for reporting the unauthorized transaction. The bank investigates and determines the applicable liability and remedial action.

Example 3 – Wrong bank charges:

The customer can challenge the charge with the branch/bank. If the response is unsatisfactory, the complaint may be escalated through the bank's internal grievance mechanism and subsequently to the RBI Ombudsman where the complaint falls within the scheme.

6. Key exam point

The RBI Ombudsman is generally not the first step. The customer should first approach the concerned bank. If the bank fails to provide a satisfactory resolution within the applicable framework, the customer may approach the RBI Ombudsman.

In short:

Complaint to Bank → Internal Grievance Redressal → Escalation within Bank → RBI Ombudsman (where eligible) → Other legal remedies, where applicable.

Meaning of Grievance

A **grievance** is a complaint, dissatisfaction, or feeling of injustice expressed by a customer because a bank has **failed to provide a service properly, caused inconvenience or loss, charged incorrectly, delayed a service, or acted contrary to its commitments or applicable rules**.

In banking, a grievance may arise from the **quality, delay, denial, deficiency, or incorrect delivery of a banking service**.

Customer Grievances of a Bank

Common customer grievances include:

1. **Delay in opening a bank account**
2. **Delay in issuing cheque books**
3. **Delay in providing account statements/passbooks**
4. **Errors in account entries**
5. **Wrong debit or credit to an account**
6. **Unauthorized transactions**
7. **Failure to stop payment of a cheque**
8. **Cheque-related problems** — wrongful dishonor, delay in collection, etc.
9. **Delay in collection of cheques and other instruments**
10. **Incorrect calculation or deduction of bank charges**
11. **Excessive or unauthorized service charges**
12. **ATM cash withdrawal problems**
13. **Debit card/credit card problems**
14. **Failed ATM transactions where the account is debited**
15. **Problems with internet banking**
16. **Problems with mobile banking/UPI transactions**
17. **Failure or delay in electronic fund transfers**
18. **Issues relating to NEFT/RTGS/IMPS transactions**
19. **Delay in processing loans**
20. **Unreasonable rejection or non-sanction of loans**
21. **Delay in disbursement of sanctioned loans**
22. **Incorrect interest calculation on loans**
23. **Problems relating to loan repayment and foreclosure**
24. **Wrong reporting of loan/default information to credit information companies**
25. **Problems relating to fixed deposits/term deposits**
26. **Failure or delay in payment of maturity proceeds**
27. **Problems relating to nomination facilities**
28. **Delay in settlement of deceased customer's accounts**
29. **Problems relating to lockers and safe custody**
30. **Poor customer service or discourteous behaviour of bank employees**
31. **Failure to provide adequate information or guidance**
32. **Non-compliance with banking rules and customer-service commitments**
33. **Failure to update KYC/customer information properly**
34. **Problems relating to account closure**
35. **Delay in returning documents/security after closure of loans**
36. **Mis-selling of banking products**
37. **Unauthorized or inappropriate insurance/investment product sales**
38. **Privacy or confidentiality-related complaints**
39. **Failure to provide accessible banking services to eligible customers**
40. **Failure to resolve an earlier complaint within the prescribed time**

Simple Classification

Category	Examples
Transaction grievances	Wrong debit, failed transfer, unauthorized transaction
Service grievances	Delay, poor service, cheque-book/passbook problems
Charges	Wrong/excessive bank charges
Digital banking	ATM, UPI, internet/mobile banking failures
Loan grievances	Delay, interest calculation, repayment, documentation
Deposit grievances	FD maturity, interest, premature closure
Employee-related	Rude behaviour, negligence, inadequate assistance
Product-related	Mis-selling, unsuitable products
Account-related	Opening, KYC, nomination, closure
Security/privacy	Unauthorized transactions, confidentiality issues

Definition for Examination

A grievance is a customer's complaint or expression of dissatisfaction arising from deficiency, error, delay, denial, or improper delivery of banking services, products, or facilities.

Important: A grievance is broader than simply a financial loss. A customer can have a valid grievance even when there is **no direct monetary loss**, for example, unreasonable delay, poor service, failure to provide information, or discourteous conduct.

Common Grievances of Small Customers of Banks

Small customers generally include individuals, low-income customers, small depositors, pensioners, wage earners, students, small traders, and other customers who maintain relatively small-value accounts and use basic banking services.

Their grievances are often related to **accessibility, delays, charges, documentation, transactions, and customer service**.

Common grievances

1. **Difficulty in opening a bank account**
    - Excessive documentation or procedural difficulties.
    - Delay in opening the account.
2. **Problems relating to KYC**
    - Difficulty in completing KYC requirements.
    - Problems in updating customer information.
3. **Minimum balance requirements**
    - Unexpected penalties for not maintaining the required balance.
    - Lack of clarity about minimum-balance rules.
4. **Excessive or unexpected bank charges**
    - ATM charges.
    - SMS/service charges.
    - Account maintenance charges.
    - Charges for failed transactions.
5. **Delay in providing basic banking facilities**

- Delay in issuing cheque books, debit cards, passbooks, etc.

6. **ATM-related complaints**
   - Account debited but cash not received.
   - Partial cash received.
   - ATM card not working.
   - Cash withdrawal disputes.
7. **Digital banking problems**
   - Failed UPI, IMPS, NEFT or other electronic transactions.
   - Amount debited but beneficiary not credited.
   - Problems with mobile or internet banking.
8. **Cheque-related grievances**
   - Delay in cheque collection.
   - Wrongful dishonor of cheques.
   - Problems with stop-payment instructions.
9. **Wrong entries in accounts**
   - Unauthorized debit.
   - Incorrect credit/debit.
   - Errors in passbook or account statement.
10. **Unauthorized transactions**
    - Unauthorized withdrawals.
    - Unauthorized card transactions.
    - Fraudulent electronic transactions.
11. **Delay in receiving interest or maturity proceeds**
    - Particularly in fixed deposits and recurring deposits.
12. **Loan-related problems**
    - Difficulty obtaining small loans.
    - Delay in processing applications.
    - Lack of clear information regarding interest, charges and repayment.
13. **Problems with small credit facilities**
    - Difficulty obtaining overdraft, small business loans, agricultural loans, or other small-ticket credit.
14. **Pension and government-benefit related problems**
    - Delay in crediting pension or benefits.
    - Problems in processing government payments.
15. **Problems relating to deceased customers**
    - Delay in settlement of accounts.
    - Difficulties with nomination or succession procedures.
16. **Poor behaviour of bank staff**
    - Rude or discourteous treatment.
    - Lack of assistance to customers who are unfamiliar with banking procedures.
17. **Lack of information**
    - Customers may not be properly informed about charges, interest rates, account rules, or available facilities.
18. **Long waiting time**
    - Delays at branches and insufficient counters or staff.
19. **Problems in account closure**

- Unnecessary delay or difficulty in closing an account and receiving the remaining balance.

20. **Lack of accessibility**
    - Difficulty accessing banking facilities because of inadequate branch/ATM availability or inadequate assistance for customers who need additional support.
    -

Particularly important grievances of small customers

The most common areas can be remembered as:

Account → KYC → Charges → ATM → Digital transactions → Cheques → Loans → Deposits → Pension/benefits → Staff behaviour → Delays → Account closure

Examination answer

Common grievances of small customers include difficulty in opening and operating accounts, KYC problems, minimum-balance charges, excessive service charges, ATM and digital transaction failures, cheque-related problems, unauthorized transactions, errors in account entries, delays in loans and deposits, pension-related issues, difficulty in account closure, long waiting time, inadequate information and discourteous behaviour of bank staff.

These grievances are important because **small customers may have limited financial resources and limited knowledge of banking procedures**, so even a relatively small error, charge, or delay can cause significant inconvenience.

Banking Ombudsman Scheme in India

Important current update: The term **"Banking Ombudsman Scheme"** historically refers to the RBI's Banking Ombudsman Scheme, 2006. However, it was subsequently integrated into the **Reserve Bank – Integrated Ombudsman Scheme (RB-IOS), 2021**, and **from 1 July 2026, RB-IOS, 2026 replaced the 2021 Scheme**. Therefore, for a current answer, the **RB-IOS, 2026** should be discussed, while the earlier Banking Ombudsman Scheme can be explained as its historical background.

1. Meaning of Banking Ombudsman

An **Ombudsman** is an independent grievance-redress mechanism established by the Reserve Bank of India to provide customers with a **simple, speedy, cost-free and non-adversarial mechanism** for resolving complaints against covered RBI-regulated entities.

Under the current RB-IOS, 2026, an **RBI Ombudsman** is an officer appointed by RBI to examine complaints concerning **deficiency in service** by regulated entities.

2. Historical development

The Banking Ombudsman mechanism was introduced by RBI to provide bank customers with an alternative to lengthy conventional dispute-resolution processes.

The important stages are:

Banking Ombudsman Scheme, 1995

↓

Banking Ombudsman Scheme, 2006

↓

Reserve Bank – Integrated Ombudsman Scheme, 2021

↓

Reserve Bank – Integrated Ombudsman Scheme, 2026 — current

The 2021 Scheme integrated three earlier mechanisms:

1. Banking Ombudsman Scheme, 2006
2. Ombudsman Scheme for Non-Banking Financial Companies, 2018
3. Ombudsman Scheme for Digital Transactions, 2019

It introduced the **"One Nation One Ombudsman"** approach, removing territorial jurisdictional restrictions. (Reserve Bank of India)

3. Objectives of the Ombudsman Scheme

The major objectives are:

- To provide **quick grievance redressal**.
- To provide a **cost-free mechanism** to customers.
- To protect banking customers from deficiency in service.
- To provide an **alternative dispute-resolution mechanism**.
- To reduce the need for customers to approach courts for appropriate service-related disputes.
- To promote customer confidence in the banking system.
- To ensure greater accountability of regulated entities.
- To improve the quality of customer service.

4. Current RB-IOS, 2026

The **Reserve Bank – Integrated Ombudsman Scheme, 2026** came into force on **1 July 2026** and replaced RB-IOS, 2021. Complaints received before 1 July 2026, appeals arising from the 2021 Scheme and execution of awards issued under the earlier scheme continue to be governed by the earlier framework.

The current system is part of RBI's **Alternate Grievance Redress (AGR) Framework**, which includes:

- RBI Ombudsman offices
- Centralized Receipt and Processing Centre (CRPC)
- Consumer Education and Protection Cells (CEPCs)
- Consumer Education and Protection Department (CEPD)

5. Main principle — Deficiency in Service

The central basis for a complaint is **"deficiency in service."**

Under RB-IOS, 2026, deficiency in service means a **shortcoming or inadequacy in a service that the regulated entity is required to provide, whether by law or otherwise**, and it may or may not result in financial loss or damage to the customer.

Thus, a customer need not always prove monetary loss.

Examples

- Unreasonable delay in providing a banking service
- Failure to execute a valid transaction
- Incorrect charges
- Failure to resolve an unauthorized transaction properly
- Defective digital banking service
- Delay in releasing eligible funds
- Failure to provide a service required under applicable rules

6. Entities covered

RB-IOS, 2026 covers specified categories of **RBI-regulated entities**, including major categories such as:

- Banks
- Certain NBFCs
- Non-bank issuers of Prepaid Payment Instruments
- Credit Information Companies

The exact coverage depends upon the categories specifically included in the Scheme.

7. Who can make a complaint?

A customer who is aggrieved by an act or omission of a covered regulated entity resulting in **deficiency in service** may file a complaint.

The complaint may be filed:

- Personally, by the complainant; or
- Through an **authorized representative**.

Under the current scheme, an advocate generally cannot act merely as the representative unless the advocate is himself/herself the aggrieved person.

8. When can a customer approach the Ombudsman?

The Ombudsman is generally **not the first level of complaint**.

The customer must first complain to the concerned bank/regulatory entity.

A complaint can subsequently be made to the RBI Ombudsman if:

1. The regulated entity does not respond within **30 days** or the applicable time specified under relevant RBI/NPCI/card-network guidelines, whichever is applicable; **or**
2. The customer receives a response but is **not satisfied with the resolution**.

Under RB-IOS, 2026, the complaint to the RBI Ombudsman should generally be made within **90 days** from the expiry of the applicable response period or from the date of the last communication from the regulated entity, whichever is later.

9. Procedure for filing a complaint

Step 1 — Approach the bank

The customer should first lodge a complaint with the concerned bank.

Step 2 — Obtain acknowledgement

The customer should preserve:

- Complaint/reference number
- Date of complaint
- Copy of complaint
- Bank's response
- Transaction details
- Relevant documents

Step 3 — Wait for the applicable response period

The customer should allow the prescribed period for the bank to respond.

Step 4 — Approach RBI Ombudsman

If the bank fails to respond or the customer is dissatisfied with its response, the customer can approach the RBI Ombudsman.

Step 5 — Examination

The Ombudsman examines:

- Customer's complaint
- Bank's response
- Documents
- Relevant RBI directions/instructions
- Facts and circumstances

Step 6 — Resolution

The matter may be:

- Settled,
- Decided through an Award, or
- Rejected/closed where the complaint is not maintainable or no deficiency is established.

10. Methods of filing

Complaints under the current scheme can be filed through:

A. Online

Through RBI's **Complaint Management System (CMS)**.

RBI Complaint Management System

B. E-mail

Complaints can be sent to the Centralized Receipt and Processing Centre.

C. Physical mode

A signed complaint form and supporting documents can be submitted through the prescribed physical channel. RBI's Contact Centre can also assist customers with information and status enquiries. The toll-free number is **14448**.

11. Information required in a complaint

A complaint should normally contain:

1. Name of complainant
2. Mobile number
3. E-mail address, if available
4. Postal address
5. Name of the bank/regulatory entity
6. Branch/location, where applicable
7. Bank's complaint/reference number
8. Date of complaint to the bank
9. Account/card/loan/transaction details, where relevant
10. Transaction date and reference number
11. Copy of bank's response, if any
12. Complete facts of the grievance
13. Nature and extent of loss/inconvenience
14. Relief sought
15. Supporting documents.

12. Types of banking complaints that may be taken up

Examples include complaints concerning:

- Savings/current accounts
- Deposits
- Cheques
- ATM transactions
- Debit and credit cards
- UPI and electronic transactions
- NEFT/RTGS/other payment services
- Internet banking
- Mobile banking
- Unauthorized transactions
- Loan servicing
- Interest calculation
- Charges and fees
- Delay in providing services
- Failure to follow applicable banking instructions
- Credit information-related services, where covered
- Other deficiencies in services provided by covered regulated entities.

The precise maintainability of a particular complaint depends upon the current Scheme and applicable RBI directions.

13. Complaints that are not maintainable

RB-IOS, 2026 identifies various situations in which complaints may be rejected.

Important examples include:

- Complaint made without first approaching the concerned regulated entity.
- Complaint filed before the applicable waiting period expires, where no response has been received.
- Complaint filed outside the prescribed limitation period.
- Incomplete complaints.
- Frivolous, abusive or vexatious complaints.
- Same grievance already dealt with by the Ombudsman.
- Same cause of action pending before a court, tribunal, arbitrator or other judicial/quasi-judicial forum.
- Matters concerning the **commercial judgment or decision** of the regulated entity.
- Disputes between vendors and regulated entities.
- Employee-employer disputes.
- Disputes between regulated entities.
- Matters outside RBI's regulatory jurisdiction.
- Complaints concerning entities not covered by the Scheme.
- Matters where another statutory remedy specifically applies.

These exclusions are important because **the Ombudsman is a service-deficiency redress mechanism, not a general substitute for every court, tribunal or regulatory process**.

14. Settlement through Ombudsman

One of the important characteristics of the Ombudsman mechanism is its emphasis on **settlement**.
The RBI Ombudsman or Deputy Ombudsman may facilitate:

- Negotiation
- Conciliation
- Facilitation
- Advisory intervention

If the customer and regulated entity reach an acceptable resolution, the complaint is closed as **settled**.

15. Award by Ombudsman

If the matter cannot be settled and the Ombudsman finds **deficiency in service**, an **Award** may be passed.
The Award may direct the regulated entity to:

- Take specified remedial action; and/or
- Pay compensation, where permitted under the Scheme.

Before passing an Award, the parties are given a reasonable opportunity to present their case.

16. Compensation

Under the current RB-IOS, 2026:

- There is **no monetary limit on the amount involved in the underlying dispute** that may be brought before the Ombudsman.
- Compensation for consequential loss can be awarded up to **₹30 lakh**.
- Additional compensation of up to **₹3 lakh** may be provided for loss of the complainant's time, expenses, harassment or mental anguish, where applicable.

This distinction is important:
Amount involved in dispute ≠ maximum compensation available from Ombudsman.

17. Cost of approaching Ombudsman

The mechanism is **free of charge** for the customer.
The customer does not have to pay a filing fee to lodge or have the complaint resolved under the Scheme. RBI also cautions customers that they do not need to use third-party agencies or pay intermediaries to file an Ombudsman complaint.

18. Appeal against Ombudsman's Award

Under RB-IOS, 2026, an appeal is available **against an Award** passed by the RBI Ombudsman.
The complainant may generally appeal within **30 days** from receiving the Award. A further period of up to 30 days may be permitted where sufficient reason for delay is established.
The regulated entity can also appeal against an Award subject to the conditions prescribed by the Scheme.
The Appellate Authority may:

- Dismiss the appeal
- Set aside the Award
- Remand the matter for fresh disposal
- Modify the Award
- Pass another appropriate order.

19. Compliance with Award

Where an Award is passed, the complainant generally has to provide acceptance of the Award in full and final settlement within the prescribed period.

The regulated entity must then comply with the Award or exercise its right of appeal in accordance with the Scheme.

20. Tracking the complaint

Once the complaint is successfully registered, a **complaint number** is provided.

The customer can track the status through the RBI CMS using the complaint number and mobile number. Assistance is also available through the RBI Contact Centre.

21. One Nation One Ombudsman

A major feature introduced under the 2021 integrated framework and continued in the current approach is the **jurisdiction-neutral/One Nation One Ombudsman** model.

The customer does **not have to determine which particular Ombudsman office has territorial jurisdiction** before filing the complaint. Complaints received through CMS/CRPC are allocated internally. (Reserve Bank of India)

22. Role of the Bank's Principal Nodal Officer

The regulated entity has responsibility for representing itself before the Ombudsman and furnishing the necessary information/documents.

Under the framework, this responsibility is assigned to the bank's designated **Principal Nodal Officer** or equivalent officer. (Reserve Bank of India)

23. Role of RBI Ombudsman

The RBI Ombudsman:

- Receives/examines eligible complaints.
- Determines maintainability.
- Examines the customer's allegations.
- Obtains the regulated entity's response.
- Examines documents and applicable RBI instructions.
- Facilitates settlement.
- Determines whether there is deficiency in service.
- May pass an Award where appropriate.
- May award compensation within the prescribed limits.
- Communicates the final outcome.
- Performs these functions through the RBI's alternate grievance-redress framework.

24. Importance to small customers

The Ombudsman mechanism is particularly important for **small and ordinary banking customers** because it provides:

- A free mechanism
- Simple access
- No requirement to immediately approach a court
- Online complaint filing
- Complaint tracking
- Assistance through RBI's Contact Centre
- An opportunity for settlement
- Compensation was permitted
- An escalation mechanism when a bank fails to resolve a grievance.

25. Advantages of the Banking Ombudsman System

1. Cost-free

No filing fee is charged.

2. Speedy

It is intended to provide faster redress than conventional litigation.

3. Simple

The customer can lodge the complaint without following elaborate court procedures.

4. Accessible

Complaints can be submitted online, by e-mail or physically.

5. Customer-oriented

The system focuses on resolving deficiencies in banking services.

6. Non-adversarial

Settlement and conciliation are emphasized.

7. Jurisdiction-neutral

The customer need not identify the territorial jurisdiction of a particular Ombudsman.

8. Transparent

Customers receive complaint/reference numbers and can track cases.

9. Compensation

Appropriate compensation may be awarded within the limits prescribed by the Scheme.

26. Limitations of the Ombudsman mechanism

The Ombudsman mechanism is **not a universal dispute-resolution forum**. It has limitations:

- The customer must generally approach the bank first.
- Certain waiting and limitation periods apply.
- Some categories of disputes are excluded.
- Commercial decisions of banks are generally outside its scope.
- Matters requiring elaborate oral/documentary evidence may not be suitable.
- Matters already pending before or decided by specified judicial/quasi-judicial forums may not be maintainable.
- Compensation is subject to the Scheme's prescribed limits.
- It cannot replace every statutory, judicial or contractual remedy.

27. Banking Ombudsman vs. Bank's Internal Grievance Mechanism

Basis	Bank's Internal Mechanism	RBI Ombudsman
First level	Yes	Generally no
Authority	Bank	RBI
Cost	Generally free	Free
Purpose	Initial resolution	Independent external redress
When used	First complaint	After bank-level process fails/is unsatisfactory
Settlement	Yes	Yes
Award	Bank's internal decision	RBI Ombudsman may pass Award
Appeal	According to bank's system	Appeal mechanism under Scheme
Jurisdiction	Bank-specific	Jurisdiction-neutral framework

28. Complete grievance-redressal flow

The entire process can be remembered as:

Customer has grievance
↓
Complaint to Bank/Branch
↓
Bank's Internal Grievance Redressal Mechanism
↓
Bank's response / 30-day applicable period
↓
Customer satisfied?
→ **YES → Complaint closed**
→ **NO → Approach RBI Ombudsman**
↓
RBI examines maintainability
↓
Bank submits response
↓
Settlement/Conciliation
↓
If settled → Case closed
↓
If not settled → Ombudsman examines deficiency in service
↓
Award / Rejection
↓
Appeal against Award, where permitted
↓
Final resolution

29. Short examination answer

The Banking Ombudsman Scheme is an RBI-established mechanism for providing simple, speedy, cost-free and non-adversarial redressal of customer complaints relating to deficiency in banking services. Historically, the Banking Ombudsman Scheme, 2006 was the principal mechanism for bank customers. It was integrated into the Reserve Bank – Integrated Ombudsman Scheme, 2021, which was replaced by the Reserve Bank – Integrated Ombudsman Scheme, 2026 with effect from 1 July 2026. Under the present scheme, a customer must ordinarily first approach the concerned bank. If the bank does not respond within the applicable period or the customer is dissatisfied with its response, the customer may approach the RBI Ombudsman. Complaints may be filed through RBI's CMS, e-mail or physical mode. The Ombudsman may facilitate settlement or, where appropriate, pass an Award and grant compensation within the prescribed limits. The Scheme is jurisdiction-neutral and provides an appeal mechanism against an Award.
RBI – Integrated Ombudsman Scheme, 2026 FAQs

Eligibility Criteria and Requirements to Approach the RBI Ombudsman
Under the **Reserve Bank – Integrated Ombudsman Scheme, 2026 (RB-IOS, 2026)**, a customer can approach the RBI Ombudsman when the complaint concerns **deficiency in service by a Regulated Entity covered by the Scheme** and the prescribed maintainability conditions are satisfied. The 2026 Scheme came into force on **1 July 2026**.

1. Basic eligibility
A person is generally eligible to approach the RBI Ombudsman if:

1. **He/she is a customer or otherwise aggrieved by the service of a covered Regulated Entity.**
2. The grievance involves an **act or omission resulting in deficiency in service**.
3. The concerned entity is **covered by RB-IOS, 2026**.
4. The customer has **first complained to the concerned bank/entity**.
5. The required time has elapsed, or the customer has received an unsatisfactory response.
6. The complaint is filed within the applicable **90-day period**.
7. The complaint is not otherwise excluded or non-maintainable under the Scheme.

2. The most important requirement: complain to the bank first
You **cannot normally go directly to the RBI Ombudsman without first approaching the bank**.
The customer must first make a complaint to the concerned bank/Regulated Entity and retain proof of having done so.
For example:
Problem with bank → Complaint to bank → Bank fails to resolve → RBI Ombudsman
The bank complaint/reference number and date should be preserved.

3. When can you approach the Ombudsman?
You can approach the RBI Ombudsman when either of these situations occurs:
Situation A — No response from bank
The bank has not responded within:

- **30 days**, or
- the applicable period specified under RBI, NPCI or Card Network guidelines, **whichever is higher**.

Situation B — Unsatisfactory response
You receive a response/resolution from the bank, but **you are not satisfied with it**.
You do not have to wait for 30 days after receiving an unsatisfactory response; the Scheme permits escalation based on the unsatisfactory response.

4. Time limit for approaching RBI Ombudsman

The complaint to the RBI Ombudsman must generally be made within **90 days** from:

- the date on which the applicable response period expires; **or**
- the date of the bank's last communication,

whichever is later.

There is also an important underlying requirement: the complaint to the bank itself must have been made within the applicable limitation period under the **Limitation Act, 1963**.

Simple timeline

Day 1: Complaint to bank

↓

Up to 30 days/applicable period: Wait for response

↓

No response OR unsatisfactory response

↓

Approach RBI Ombudsman within 90 days

5. The grievance must involve "deficiency in service"

The complaint must relate to a **shortcoming or inadequacy in a service that the Regulated Entity is required to provide**, whether under law or otherwise.

Importantly, deficiency in service **need not necessarily result in financial loss**.

Examples

- Unauthorized transaction not properly dealt with
- Failed electronic transaction
- Wrong debit
- Unreasonable delay
- Incorrect charges
- Cheque-related service failure
- ATM transaction problems
- Loan servicing deficiencies
- Deposit-related service deficiencies
- Failure to provide a service required under applicable rules

6. The bank/entity must be covered by the Scheme

RB-IOS, 2026 does **not cover every entity that happens to be connected with financial services**.

The major categories covered include:

Banks

- Commercial Banks
- Regional Rural Banks
- State Co-operative Banks
- Central Co-operative Banks
- Scheduled Primary Urban Co-operative Banks
- Non-Scheduled Primary Urban Co-operative Banks meeting the prescribed deposit-size threshold.

Other entities

- Specified NBFCs
- Non-bank Prepaid Payment Instrument issuers
- Credit Information Companies

The exact eligibility of an entity depends upon the coverage requirements under the 2026 Scheme.

7. Required information and documents

A complaint should contain sufficient information for RBI to identify the dispute and examine it.

Basic personal details

- Name
- Mobile number
- E-mail address, if available
- Full postal address

Bank details

- Name of the bank
- Branch/location
- Address, where applicable

Previous complaint details

You should provide:

- Bank complaint/reference number
- Date on which complaint was made
- Copy of the complaint submitted to the bank
- Bank's response, if any

Transaction details

Where relevant:

- Account number/details
- Card details
- Loan details
- Transaction date
- Transaction/reference number
- Amount involved
- Other relevant transaction information

Statement of grievance

Clearly explain:

- What happened?
- When did it happen?
- What service was deficient?
- What did the bank do or fail to do?
- What loss or inconvenience resulted?
- What remedy are you seeking?

Supporting documents
Attach relevant evidence such as:

- Bank correspondence
- Statements
- Transaction records
- Receipts
- Screenshots
- Emails
- SMS/messages
- Complaint acknowledgement
- Bank's reply

RBI specifically requires the minimum details necessary to establish and process the complaint.

8. Who can file?
The complaint may be filed:

- **Personally, by the complainant**, or
- through an **authorized representative**.

The representative must be properly authorized in writing. Under the 2026 Scheme, an advocate generally cannot act as the representative unless the advocate is himself/herself the aggrieved person.

9. No fee is required
A major benefit is that **there is no charge or filing fee** for approaching the RBI Ombudsman.
Customers do not need to pay an agent or third-party agency to file the complaint.

10. Complaints that are generally not maintainable
Even if a person has a banking problem, the Ombudsman may not entertain the complaint if, for example:

- The customer has **not first approached the bank**.
- The required waiting period has not expired and there is no unsatisfactory response.
- The complaint is filed after the applicable **90-day period**.
- Required information is incomplete.
- The complaint is abusive, frivolous or vexatious.
- The same grievance has already been dealt with by the Ombudsman.
- The same grievance is pending before, or has already been decided on merits by, a court, tribunal, arbitrator or other judicial/quasi-judicial forum.
- The complaint concerns an entity not covered by RB-IOS, 2026.
- The complaint relates to matters excluded by the Scheme, such as certain commercial decisions of the regulated entity.

11. Where to file the complaint

The complaint can be submitted through:

Online

RBI Complaint Management System (CMS)

RBI Complaint Management System

E-mail

The RBI's Centralized Receipt and Processing Centre accepts complaints through the prescribed e-mail channel.

Physical mode

A signed complaint with supporting documents can be submitted through the prescribed physical channel.

The RBI Contact Centre can also provide assistance and status information through **14448**.

12. Checklist before approaching the Ombudsman

Before filing, the customer should be able to answer **YES** to these questions:

Requirement	Check
Is the grievance against an entity covered by RB-IOS?	✓
Does it concern deficiency in service?	✓
Have I first complained to the bank?	✓
Do I have proof of my bank complaint?	✓
Has the applicable response period expired, or did I receive an unsatisfactory response?	✓
Am I within the 90-day period for approaching the Ombudsman?	✓
Have I provided complete facts?	✓
Do I have supporting documents?	✓
Is the same matter not pending/decided before another applicable forum?	✓
Have I clearly stated the remedy I want?	✓

In one sentence

A customer can approach the RBI Ombudsman when a covered bank or other Regulated Entity has caused deficiency in service, the customer has first complained to that entity, the entity has failed to respond within the applicable period or has provided an unsatisfactory response, and the complaint is filed within the prescribed 90-day period with the required information and documents.

Exam formula:

Covered Entity + Deficiency in Service + First Complaint to Bank + 30 Days/Unsatisfactory Reply + 90-Day Ombudsman Limit + Complete Documents = Eligibility to Approach RBI Ombudsman.

Model Policy on Grievance Redressal and Its Principles

A **Customer Grievance Redressal Policy** is a formal, Board-approved policy adopted by a bank to establish a systematic process for **receiving, recording, investigating, resolving, escalating and monitoring customer complaints**.

RBI has required banks to have a **well-documented Customer Grievance Redressal Policy approved by their Boards**. The policy should be based on broad principles relating to fair and expeditious handling of complaints. (Reserve Bank of India)

The policy is an important part of the bank's overall customer-service framework and should not merely be treated as a mechanism for dealing with complaints after they arise. RBI has emphasized that effective grievance redress should be an **integral part of a bank's business strategy**. (Reserve Bank of India)

1. Objectives of the Model Grievance Redressal Policy

The main objectives are:

1. **Prompt resolution of customer complaints**
2. **Fair and impartial treatment** of customers
3. Providing an **accessible mechanism** for lodging complaints
4. Providing clear **escalation channels**
5. Ensuring **accountability** of bank officials
6. Maintaining proper records of complaints
7. Identifying **recurring and systemic problems**
8. Preventing repetition of complaints
9. Providing appropriate **compensation/remedial action**, where applicable
10. Informing customers about their right to approach an **alternative grievance-redress mechanism**, including the RBI Ombudsman where applicable.

2. Basic Principles of Grievance Redressal

1. Fair Treatment

Customers should be treated **fairly, courteously and without discrimination**.

The bank should not disadvantage a customer merely because the customer has lodged a complaint.

2. Promptness and Timeliness

Complaints should be dealt with **quickly and within prescribed time limits**.

The policy should establish clear turnaround times for different categories of complaints.

RBI specifically requires banks to fix time frames for resolving complaints at different levels. (Reserve Bank of India)

3. Accessibility

Customers should have convenient methods for lodging grievances, such as:

- Branches
- Written complaints
- Telephone/customer-care channels
- E-mail
- Bank website
- Mobile/digital channels
- Other prescribed channels.

The complaint mechanism should be easily accessible, including to customers in rural and underserved areas.

4. Easy Complaint Registration
A customer should not have to undergo unnecessary formalities merely to register a complaint.
RBI's customer-service framework has specifically provided for complaint registers/forms and mechanisms for customers to record their complaints. (Reserve Bank of India)
5. Acknowledgement of Complaint
Every complaint should be properly **acknowledged**.
The customer should preferably receive a:

- Complaint number
- Reference number
- Docket number
- Acknowledgement message

This enables the customer to track the complaint. RBI has emphasized the importance of acknowledging complaints for follow-up. (RBI)
6. Transparency
The customer should be informed about:

- How to lodge a complaint
- Who will handle it
- Expected time for resolution
- Present status
- Escalation mechanism
- Further remedies if dissatisfied.

Banks should make their grievance-redress procedure and applicable response timeframes publicly available. (RBI)
7. Accountability
The bank should clearly identify the officials responsible for grievance redressal.
The names/contact details of designated grievance-redressal officials should be made available to customers. (Reserve Bank of India)
8. Independence and Objectivity
Complaints should be examined **objectively and without prejudice**.
At higher levels, the grievance mechanism should provide an independent review of complaints, particularly complaints that have been rejected or only partly resolved. RBI's Internal Ombudsman framework strengthens this internal review structure. (System Health)
9. No Retaliation
A customer should not suffer adverse treatment merely because the customer has exercised the right to complain.
10. Proper Investigation
The bank should investigate the complaint based on:

- Facts
- Transaction records
- Account records
- Relevant documents
- Applicable banking rules
- RBI directions
- The customer's explanation.

11. Reasoned Response

The bank should provide a meaningful response rather than merely stating that the complaint has been "closed." Where a complaint is rejected, the customer should be given the **reason for rejection** and information about the appropriate escalation route.

12. Escalation

The policy should establish a clear hierarchy, for example:

Branch/Customer Care

↓

Branch Manager/Grievance Officer

↓

Regional/Zonal Office

↓

Nodal/Principal Nodal Officer

↓

Internal Ombudsman, where applicable

↓

RBI Ombudsman, where applicable

This makes the system more effective and prevents unresolved complaints from remaining at the same level indefinitely.

13. Cost-Free or Reasonable Access

Customers should be able to lodge complaints without unnecessary costs or barriers.

14. Special Attention to Vulnerable Customers

The mechanism should be accessible to:

- Small customers
- Rural customers
- Senior citizens
- Persons with disabilities
- Customers with limited digital literacy
- Customers who may require assistance in using banking services.

15. Confidentiality and Privacy

Information relating to the customer's account, transactions and complaint should be handled with appropriate confidentiality and security.

16. Proper Record Keeping

The bank should maintain records of:

- Complaints received
- Date of receipt
- Nature of complaint
- Officer responsible
- Action taken
- Date of resolution
- Amount of compensation, if any
- Pending complaints
- Escalated complaints.

3. Complaint Handling Process

A model grievance mechanism can be represented as:

Receipt of Complaint
↓
Acknowledgement & Complaint Number
↓
Classification of Complaint
↓
Investigation
↓
Resolution/Corrective Action
↓
Communication of Decision to Customer
↓
Customer Satisfied?
YES → Close Complaint
NO → Escalation to Higher Authority
↓
Internal Review/Ombudsman, where applicable
↓
External Remedy such as RBI Ombudsman, where applicable

4. Publicity of the Grievance Policy

A grievance policy is useful only if customers know about it.

Banks should therefore give the policy **wide publicity**, including through:

- Bank website
- Branch notice boards
- Customer information material
- Digital banking channels
- Appropriate customer communications.

RBI has specifically advised banks to publicize their customer-service policies on their websites and through branch notice boards. (Reserve Bank of India)

Branches should also display the contact details of officials responsible for handling complaints. (Reserve Bank of India)

5. Monitoring of Grievances

The grievance mechanism should not end when an individual complaint is closed.

The bank should periodically analyse:

- Number of complaints received
- Number resolved
- Number pending
- Age of pending complaints
- Major grounds of complaints
- Branch-wise complaints
- Product-wise complaints

- Recurring complaints
- Complaints escalated to higher authorities
- Complaints referred to the RBI Ombudsman
- Awards/orders requiring implementation.

RBI's strengthened framework requires greater attention to complaint data, disclosures and review of the effectiveness of banks' grievance-redress mechanisms. (Reserve Bank of India)

6. Root-Cause Analysis

One of the most important principles of a modern grievance policy is:

A complaint should not merely be resolved; the reason why the complaint occurred should also be identified.

For example:

100 customers complain about ATM failures

→ Bank investigates
→ Finds software/network problem
→ Corrects system
→ Future complaints decrease.

Thus, grievance data should be used to improve:

- Products
- Services
- Technology
- Employee training
- Procedures
- Customer communication.

RBI's supervisory framework specifically looks at the **effectiveness of the grievance-redress mechanism** and underlying systemic issues. (Reserve Bank of India)

7. Board and Senior Management Responsibility

Grievance redressal is not merely the responsibility of branch staff.

The bank's senior management and Board should monitor customer-service and grievance issues.

RBI's framework provides for review of:

- Adequacy of customer-service and grievance policies
- Functioning of the Customer Service Committee of the Board
- Involvement of top management
- Effectiveness of the grievance-redress mechanism. (Reserve Bank of India)

8. Five Fundamental Customer Rights

The grievance-redressal policy should also be consistent with RBI's **Charter of Customer Rights**, which recognizes five broad rights:

1. **Right to Fair Treatment**
2. **Right to Transparency, Fair and Honest Dealing**
3. **Right to Suitability**
4. **Right to Privacy**
5. **Right to Grievance Redress and Compensation**. (Reserve Bank of India)

These rights provide an important customer-protection foundation for a bank's grievance policy.

9. Essential Contents of a Model Grievance Redressal Policy

A comprehensive bank policy should contain:

Component	What it should provide
Purpose	Objectives of grievance redressal
Scope	Customers, products and services covered
Definition	Meaning of complaint/grievance
Channels	Ways of lodging complaints
Acknowledgement	Complaint/reference number
Turnaround time	Time for resolving complaints
Escalation	Higher authorities and levels
Grievance officers	Names/designations/contact details
Investigation	Method of examining complaints
Resolution	Corrective/remedial action
Communication	Decision communicated to customer
Compensation	Applicable compensation policy
Internal review	Higher-level/IO review where applicable
External remedy	RBI Ombudsman and other remedies
Record keeping	Complaint database and documentation
Monitoring	Periodic review by management/Board
Root-cause analysis	Prevention of recurring complaints
Public disclosure	Publication of relevant complaint information

10. Cardinal Principles — Short Answer

For examination purposes, the **core principles** can be remembered as:

Fairness + Accessibility + Acknowledgement + Timeliness + Transparency + Accountability + Objectivity + Escalation + Confidentiality + Compensation + Monitoring + Prevention

Exam-ready definition

A Model Customer Grievance Redressal Policy is a Board-approved framework of a bank that establishes an accessible, transparent, fair, accountable and time-bound mechanism for receiving, acknowledging, investigating, resolving and escalating customer complaints, while using complaint analysis to prevent recurrence and improve customer service.

The RBI framework emphasizes that complaints should be **resolved fairly and expeditiously regardless of their source**, with appropriate complaint registration, acknowledgement, time limits and clearly identified officials responsible for redressal. (Reserve Bank of India)

Customer Complaint in Banking

Meaning of Customer Complaint

A **customer complaint** is an expression of dissatisfaction made by a customer to a bank regarding a **banking product, service, transaction, employee, charge, delay, error, or failure to meet an obligation or service standard**, with the expectation that the matter will be addressed or corrected.

A complaint may arise even when the customer has **not suffered a monetary loss**. For example, unreasonable delay, inadequate information, or poor service may itself constitute a customer complaint.

1. Common Causes of Customer Complaints

Bank customers may complain because of:

1. **Delay in providing banking services**
2. **Errors in account entries**
3. **Wrong debit or credit**
4. **Unauthorized transactions**
5. **ATM problems**
6. **Debit/credit card problems**
7. **UPI and electronic-payment failures**
8. **Cheque dishonour or collection delays**
9. **Incorrect or excessive charges**
10. **Problems with fixed deposits**
11. **Loan-processing and servicing problems**
12. **Incorrect interest calculation**
13. **Problems with account opening or closure**
14. **KYC-related difficulties**
15. **Nomination-related problems**
16. **Delay in settlement of deceased customers' accounts**
17. **Poor behaviour or negligence by bank employees**
18. **Failure to provide adequate information**
19. **Internet/mobile banking problems**
20. **Failure to resolve an earlier complaint**

2. Essential Elements of a Customer Complaint

A proper complaint normally contains:

- **Identity of the complainant**
- **Name of the bank**
- **Account/card/loan details**, where relevant
- **Date and place of occurrence**
- **Description of the problem**
- **Transaction/reference number**, if applicable
- **Amount involved**, if any
- **Documents or evidence**
- **Steps already taken with the bank**
- **Relief or remedy expected by the customer**

3. Customer Complaint vs. Grievance

The two terms are closely related but can be distinguished:

Customer Complaint	Grievance
A complaint formally expressed by the customer	The underlying dissatisfaction or sense of wrong/injustice
Usually communicated to the bank	May exist before a formal complaint is made
Starts the grievance-redressal process	Can be the reason for making a complaint
Example: "My account was wrongly debited ₹5,000."	The customer's dissatisfaction arising from the wrongful debit

Simple relationship:

Problem/Deficiency → Customer's dissatisfaction → Complaint → Grievance Redressal → Resolution

4. Types of Customer Complaints

A. Transaction complaints

- Wrong debit/credit
- Failed transfer
- Unauthorized transaction
- Duplicate transaction

B. Service complaints

- Delay
- Non-provision of service
- Poor customer service
- Failure to respond

C. Product complaints

- Loan products
- Deposit products
- Cards
- Insurance/investment products distributed by banks

D. Technology-related complaints

- ATM
- UPI
- Internet banking
- Mobile banking
- Digital payment failures

E. Staff-related complaints

- Rude behaviour
- Negligence
- Miscommunication
- Failure to assist customers

F. Financial complaints

- Incorrect charges
- Wrong interest
- Unauthorized deductions
- Incorrect loan calculations

5. Procedure for Handling a Customer Complaint

A bank should normally follow this sequence:

Complaint received
↓
Complaint registered
↓
Acknowledgement/reference number issued
↓
Complaint classified
↓
Investigation
↓
Decision and corrective action
↓
Customer informed
↓
Complaint closed

If the customer is dissatisfied:

Escalation to higher grievance authority
↓
Internal review / Internal Ombudsman, where applicable
↓
RBI Ombudsman, where eligible

6. Principles for Handling Customer Complaints

A bank's complaint-handling system should be:

- **Fair**
- **Simple**
- **Accessible**
- **Transparent**
- **Time-bound**
- **Responsive**
- **Accountable**
- **Confidential**
- **Non-discriminatory**
- **Customer-oriented**

The bank should also examine complaints to identify **systemic or recurring problems**, rather than merely closing individual complaints.

7. Importance of Customer Complaints

Customer complaints are not merely problems for the bank. They provide valuable information about weaknesses in:

- Banking procedures
- Technology
- Products
- Employee performance
- Communication
- Internal controls
- Customer service.

Therefore:

A complaint is both a request for redress and a source of information for improving banking services.

Examination definition

A customer complaint is an expression of dissatisfaction by a bank customer concerning a banking product, service, transaction, conduct, charge, delay, error, or failure in service, made with the expectation of receiving an explanation, correction, compensation, or other appropriate remedy.

Present Grievance Redressal Mechanism in Banks

The **present grievance redressal mechanism in Indian banks** is a multi-level system through which customer complaints are first resolved **within the bank** and, if unresolved, can be taken to the **RBI's external grievance-redressal framework**.

As of **2026**, the RBI's current external mechanism is the **Reserve Bank – Integrated Ombudsman Scheme, 2026 (RB-IOS, 2026)**, which came into force on **1 July 2026**, replacing RB-IOS, 2021.

1. Overall structure

The present mechanism can be represented as:

Customer has a grievance

↓

Complaint to Bank

↓

Branch / Customer Service / Bank's Internal Grievance Mechanism

↓

Grievance Officer / Nodal Officer / Higher Authority

↓

Internal Ombudsman, where applicable

↓

RBI Ombudsman / RBI Alternate Grievance Framework

↓

Appeal against Award, where applicable

2. First level — Complaint to the Bank

The **bank itself is the first point of redressal**.

Banks are required to maintain a suitable internal mechanism for receiving and resolving customer complaints fairly and expeditiously. RBI's customer-service framework calls for proper complaint registration, acknowledgement and specified time frames for resolution. (Reserve Bank of India)

A customer can generally complain through:

- Branch
- Customer-care center
- Written complaint
- E-mail
- Bank website
- Mobile banking application
- Other channels provided by the bank.

The customer should obtain and preserve the **complaint/reference number**.

3. Internal escalation within the bank

If the complaint is not satisfactorily resolved at the first level, it can be escalated through the bank's internal hierarchy.

A typical structure is:

Branch / Customer Care

↓

Branch Manager

↓

Regional/Zonal Office

↓

Grievance Redressal/Nodal Officer

↓

Principal Nodal Officer / Higher Authority

↓

Internal Ombudsman, where applicable

The exact designations vary between banks.

Banks should make information about their grievance-redress mechanism and responsible officials accessible to customers. (Reserve Bank of India)

4. Internal Ombudsman

The **Internal Ombudsman (IO)** is an important component of the bank's internal grievance-redressal architecture.

The Internal Ombudsman provides an **independent internal review** of eligible complaints that have been rejected or only partly resolved by the bank.

The purpose is to strengthen the bank's own grievance-redress mechanism **before the customer has to approach the RBI Ombudsman**.

RBI has continued to strengthen the Internal Ombudsman framework and in July 2026 specifically highlighted the role of the Internal Ombudsman in strengthening customer grievance redress. (Reserve Bank of India)

5. External level — RBI Alternate Grievance Redressal Framework

If the customer remains dissatisfied after approaching the bank, the matter may be taken to the RBI's **Alternate Grievance Redress (AGR) Framework**, where eligible.

The current framework comprises:

- **RBI Ombudsman Offices**
- **Centralized Receipt and Processing Centre (CRPC)**
- **Consumer Education and Protection Cells (CEPCs)**
- **Consumer Education and Protection Department (CEPD)**.

6. RBI Ombudsman — current position

The **RB-IOS, 2026** provides a cost-free, expeditious and non-adversarial mechanism for complaints involving **deficiency in service** by covered Regulated Entities.

Major categories of banks covered include:

- Commercial Banks
- Regional Rural Banks
- State Co-operative Banks
- Central Co-operative Banks
- Scheduled Primary Urban Co-operative Banks
- Non-Scheduled Primary Urban Co-operative Banks meeting the prescribed deposit threshold.

The Scheme also covers specified NBFCs, non-bank Prepaid Payment Instrument issuers and Credit Information Companies.

7. When can the customer approach the RBI Ombudsman?

The customer must **first approach the concerned bank**.

The RBI Ombudsman can generally be approached when:

A. No satisfactory response

The customer receives **no response within 30 days** or within the applicable period specified by RBI/NPCI/Card Network guidelines, whichever is higher.

B. Unsatisfactory response

The bank provides a response/resolution, but the customer is **not satisfied** with it.

The complaint must generally be filed with the RBI Ombudsman within **90 days** from the expiry of the applicable response period or from the date of the bank's last communication, whichever is later.

8. Complaint Management System

Complaints under RB-IOS, 2026 can be filed through RBI's centralized **Complaint Management System (CMS)**.

RBI Complaint Management System

Complaints may also be submitted through:

- **E-mail:** CRPC
- **Physical mode:** Centralized Receipt and Processing Centre.

The RBI Contact Centre **14448** provides assistance regarding the grievance-redress process and complaint status.

9. One Nation — One Ombudsman approach
The present framework is **jurisdiction-neutral**.
A customer does **not** have to determine which particular RBI Ombudsman office has territorial jurisdiction before filing a complaint. Complaints submitted through CMS or CRPC are allocated internally by RBI.
This makes the system considerably simpler for customers.

10. What happens after the complaint reaches RBI?
The broad process is:
Complaint received
↓
Maintainability/admissibility examination
↓
Complaint forwarded to Regulated Entity
↓
Bank submits response/documents
↓
RBI Ombudsman examines both sides
↓
Settlement / conciliation / facilitation
↓
If settlement succeeds → Complaint closed
↓
If settlement fails → decision/Award where appropriate
The Ombudsman may reject a complaint where it is not maintainable, does not disclose deficiency in service, requires elaborate evidence unsuitable for the Ombudsman process, or falls within another exclusion under the Scheme.

11. Award and compensation
Where appropriate, the RBI Ombudsman can pass an **Award**.
Under RB-IOS, 2026:

- There is **no monetary limit on the amount involved in the underlying dispute** for bringing the complaint.
- Compensation for consequential loss may be awarded up to **₹30 lakh**.
- Additional compensation of up to **₹3 lakh** may be provided for loss of the complainant's time, expenses, harassment or mental anguish, subject to the Scheme.

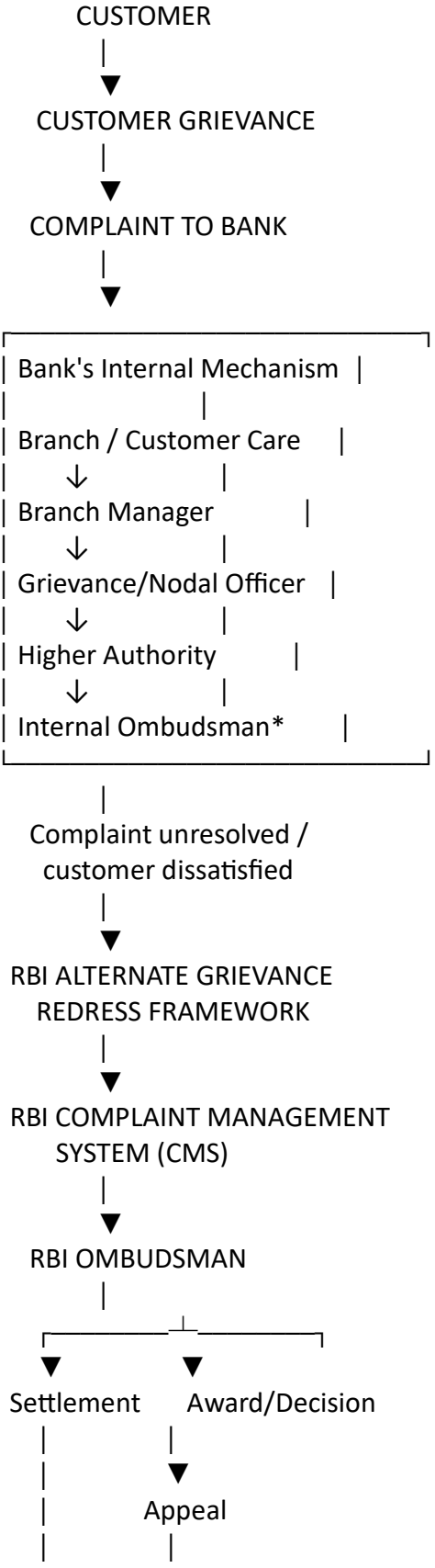
12. Appeal
An appeal is available against an **Award** under the current Scheme.
A complainant can generally appeal within **30 days** from receiving the Award. An additional period of up to 30 days may be allowed where sufficient reason for delay is established.
The Appellate Authority may:

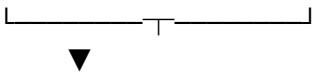
- Dismiss the appeal
- Set aside the Award
- Remand the case
- Modify the Award
- Pass another appropriate order.

13. Important principles of the present mechanism
The present banking grievance system is based on:
1. Accessibility
Customers should have convenient ways to lodge complaints.
2. Fairness
Complaints should be considered objectively and fairly.
3. Promptness
Complaints should be resolved within prescribed/applicable time limits.
4. Transparency
Customers should know the complaint procedure and escalation mechanism.
5. Accountability
Specific officials should be responsible for grievance handling.
6. Acknowledgement
Complaints should be properly registered and acknowledged.
7. Escalation
Unresolved complaints should be capable of moving to higher authorities.
8. Independence
Internal and external review mechanisms should provide appropriate independence.
9. Cost-free external redress
RB-IOS provides a free mechanism for eligible complaints.
10. Systemic improvement
Banks should analyse complaints and use them to correct recurring problems.
RBI describes grievance redressal as a system for receiving and addressing complaints with particular emphasis on resolving them **fairly and expeditiously**. (Reserve Bank of India)

14. Role of complaint analysis
A modern grievance mechanism does not simply ask:
"How do we close this complaint?"
It should also ask:
"Why did this complaint occur, and how can we prevent it from happening again?"
For example:
Repeated ATM complaints
→ Identify technical/system problem
→ Correct system
→ Train staff
→ Improve monitoring
→ Reduce future complaints.
Thus, complaint data should be used for **root-cause analysis and improvement of banking services**.

15. Present mechanism — complete flowchart





RESOLUTION

*** Internal Ombudsman applies according to the RBI framework and the bank's applicable regulatory requirements.**

16. Short examination answer

The present Grievance Redressal Mechanism in Banks is a multi-level system consisting of internal grievance redressal by the bank and external redressal through the RBI's Alternate Grievance Redress Framework. A customer first approaches the concerned bank through its branch, customer-care or designated grievance channels. If the complaint is not satisfactorily resolved, it may be escalated within the bank, including to the Internal Ombudsman where applicable. If the customer remains dissatisfied, an eligible complaint relating to deficiency in service may be taken to the RBI Ombudsman under the Reserve Bank – Integrated Ombudsman Scheme, 2026. Complaints can be filed through RBI's CMS, e-mail or physical mode. The mechanism emphasizes accessibility, fairness, promptness, transparency, accountability, settlement and appropriate compensation. An appeal is available against an Award in accordance with the Scheme.

One-line formula for exams

Customer → Bank → Internal Escalation → Internal Ombudsman (where applicable) → RBI Ombudsman → Award/Settlement → Appeal, where applicable.

BC/BF – MCQ

1. Interest on FDRs is compounded on
a) Monthly basis
b) Quarterly basis
c) Half-yearly basis
d) Yearly basis

2. Contents of the locker are
a) only known to the hirer
b) known to Bank
c) Both (a) & (b)
d) None of the above

3. If locker rent is not paid, Bank can
a) seal the locker
b) stop the operation of the locker
c) break open the locker after giving suitable notice
d) All of the above

4. MGNREGS stands for
a) Mahatma Gandhi National Rural Employment Generation Scheme
b) Mahatma Gandhi Nutrition & Rural Employment Generation Scheme
c) Mahatma Gandhi National Rural Employment Guarantee Scheme
d) None of the above

5. The maximum tenure of Fixed Deposit is
a) 5 years
b) 7 years
c) 8 years
d) 10 years

6. What is the RuPay Debit Card?
a) Domestic debit card
b) Introduced by National Payments Corporation of India
c) Accepted at all ATMs & PoS machines
d) All of the above

7. To whom the Overdraft facility of Rs.5,000/- in PMJDY Account is available?
a) After 6 months of satisfactory conduct of account
b) One account per household
c) Customers in the age group of 18-60 years
d) All of the above

8. What is Direct Benefit Transfer?
a) Cash discount on goods
b) Remittance through Banks
c) Transfer of social benefits /subsidies directly in Bank accounts of beneficiaries
d) None of the above

9. What is meant by Aadhaar seeding?
a) Linking of Aadhaar with Bank account
b) Duplicate issuance of Aadhaar
c) Transfer of Aadhaar
d) None of the above

10. What are the benefits attached to PMJDY?
a) Accident insurance cover of Rs.1.00 lac
b) Life insurance cover of Rs.30,000/-
c) Overdraft facility up toRs.5,000/-
d) All of the above

11. Who can open an account under PMJDY?
a) Minor above the age of 10 years
b) Only lady of the house
c) Only head of the family
d) All of the above

12. Who is Bank Mitra?
a) Banking Correspondents engaged by Banks
b) valuable customer of Bank

c) Security guard in a branch
d) None of the above

13. What is the maximum amount of deposits acceptable in Small accounts?
a) Rs.30,000/-
b) Rs.40,000/-
c) Rs.50,000/-
d) None of the above

14. What kinds of services are available free in 'Basic Savings Bank Deposit Account'?
a) Receipt/credit of money through NEFT / RTGS
b) No annual maintenance charges on ATM-cum-Debit card
c) 4 withdrawals in a month (including ATM withdrawals)
d) All of the above

15. What is the minimum deposit required while opening a BSBD Account?
a) Rs.100/-
b) No minimum deposit required
c) Rs.1,000/-
d) Rs.500/-

16. What is Atal Pension Yojana (APY)?
a) Provides social security to the unorganized sector
b) Encourages workers to voluntarily save for their retirement
c) Fixed pension is paid on attaining the age of 60 years
d) All of the above

17. What is Pradhan Mantri Suraksha Bima Yojana PMSBY)?
a) Accidental insurance cover
b) Life insurance cover
c) Overdraft up to Rs.5,000/-
d) None of the above

18. What is Pradhan Mantri Jivan Jyoti Bima Yojana (PMJJBY)?
a) Covers life insurance up to Rs.2 lac
b) Accident insurance cover
c) Both (a) & (b)
d) None of the above

19. Which type of deposits earns a higher interest rate?
a) Current account
b) Savings Account
c) Fixed Deposits
d) None of the above

20. Under PMSBY, an accidental death claim is available for:
a) Rs.1 lac
b) Rs.2 lac
c) Rs.3 lac
d) None of the above

21. What is the validity period of the cheque?
a) 4 months from date of issue
b) 3 months from date of issue
c) 1 month from the date of issue
d) Unlimited

22. Under PMSBY, the partial disability claim is available for:
a) Rs.50,000/-
b) Rs.1 lac
c) Rs.2 lac
d) None of the above

23. Can an illiterate person be issued a Debit card?
a) No
b) Yes
c) Only in case of the joint account
d) Only in case, he is head of the family

24. Under APY, fixed pension can be chosen from:
a) Rs.1,000/-, Rs.2,000/-, Rs.3,000/-, Rs.4,000/-, Rs.5,000/-
b) Rs.2,000/-, Rs.3,000/-, Rs.4,000/-, Rs.5,000/-, Rs.6,000/-
c) Rs.500/-, Rs.1,000/-, Rs.2,000/-, Rs.3,000/-, Rs.4,000/-
d) None of above

25. PMJDY LIC Insurance of Rs.30,000/- is available for first-time accounts opened
a) On 15th August 2014
b) On 26th January 2015
c) Between 15th August 2014 and 26th January 2015
d) None of the above

26. Which are not covered under the PMJDY Life Insurance Scheme of Rs.30,000/-
a) Employees of Central / State Govt. / Public Sector Undertakings / Banks
b) Income Tax Payee
c) Aam Aadmi Bima Yojana beneficiaries
d) All of the above

27) Which of the following is not acceptable as address proof for opening a bank account by an individual?
A) Current Electric Bill (Not Older Than 3 Months)

B) Domicile certificate
C) Other than those gives as options
D) A rent agreement indicating the address of the customer duly registered with State Govt.

28) Which of the following is the correct full form of ECS often used in banking?
A) Electronic Clash System
B) Electronic Cash Service
C) Electronic Clearing Service
D) Electronic Changing System

29)A demand draft issued by a Bank is valid for
A)3 years
B) There is no time limit
C)3 months
D)12 months

30)In which of the following types of banking, there is a direct execution of transaction between a bank and its consumers?
A) Retail Banking
B) Universal Banking
C) Virtual Banking
D) Unit Banking

31)What is the maximum amount that is insured by DICGC?
A)5,00,000
B)2,00,000
C)1,00,000
D)50,000

32)The abbreviation 'EPOS' stands for .....
A) Electronic Payment of Sale
B) Electronic Point of Sale
C)Electronic Purchase of Sale
D)Electronic Price of Sale

33)Which of the following bodies regulates the Regional Rural Banks?
A) RBI
B) NABARD
C)Department of Rural Development
D)State Government

34)Deposit under the Foreign Currency Non-Resident (FCNR)scheme can be accepted for a minimum of
A)15 days
B)3 months
C)6 months

D)1 year

35)India has different categories of commercial banks. Which of the following is not a commercial bank?
A) Foreign Bank
B) Commodity Banks
C) Nationalized Banks
D) Co-operative Banks

36)The maximum amount that can be remitted through RTGS is .....
A) Rs 1 crore
B) Rs 50 lacs
C) Rs 2 lacs
D)No upper ceiling

37)The Foreign Exchange of India is kept with
A) SBI
B) ECGC
C) RBI
D)NABARD

38)Balance in a current account is classified as ..
A) Hybrid deposit
B) Term deposit
C) Demand deposit
D) Fixed deposit

39) IFSC has how many digits?
A)7
B)15
C)11
D)9

40)Which one of the following is not a monetary tool of RBI?
A) Reverse Repo Rate
B) SLR
C) Inter Bank Rate
D)Repo Rate

41)The rate at which domestic currency can be converted into foreign currency and vice-versa is known as
A) LIBOR
B) Base Rate
C) Repo Rate
D)Exchange Rate

42)Banking Ombudsman is appointed by
a) SEBI
b) NABARD
c) RBI
d) None of these

43)Bank deposits that can be withdrawn without notice are called:
a) Demand Deposits
b) Fixed Deposits
c) On-Demand and Time Deposits
d) Basic Savings Deposits

44)Mutilated Notes are?
a) Notes which are in pieces and/or of which the essential portions are missing
b) Any banknote, which is wholly or partially, obliterated, shrunk
c) Notes which are washed, altered or indecipherable
d) Notes which are wholly or partially, obliterated, shrunk, washed, altered or indecipherable

45)FCCB stands for:
a) Finance and Currency Controller Board
b) Foreign Currency Convertible Bond
c) Foreign Collection for Cash Board
d) None of these

46)Those amounts due to vendors or suppliers that must be paid within one year is known as:
a) Loan Advances
b) Accounts Payable
c) Creditors
d) Debtors

47)The maximum compensation by Banking Ombudsman for a complaint is:
a) Rs.1 lakh
b) Rs.2 lakh
c) Rs.5 lakh
d) Rs.10 lakh

48)A money deposited in a bank that cannot be withdrawn for a preset fixed period of time is known as:
a) Checking Account
b) Term Deposit
c) No Frills Account
d) None of These

49)RBI is the lender of last resort which reveals:
a) RBI advances money to the public whenever there is an emergency
b) Commercial banks give fund to the RBI

c) RBI advances necessary credit against eligible securities to financial institutions
d) All of the above

50)The securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI) meant the recovery of loans which have become NPA is not applicable to:
a) Financial Institutes of Government
b) Non - Banking Financial Companies
c) Small & Cooperative Banks
d) None of These

51) "Microcredit" refers to:
a) Installments are given by farmers against loans
b) A small credit is given to poor
c) Credit is given by the government to improve industrialization
d) None of These

52) Which of the following is known as plastic money?
(A) Demand Draft (B) Credit card (C) Debit card
a. only A
b. only B
c. only C
d. Both B and C
e. All A, B, and C

53) Bridge loans refer to-
A. Loans granted to construction companies for the construction of bridges.
B. Loan granted to PWD for construction of bridges over Rivers
C. Interim finance allowed by banks to their customers pending disbursement of term loans by financial institutions
D. Loan granted to Railway for construction of bridges
E. None of these

54. Which of the following is not a Negotiable instrument?
A. Cheque
B. Fixed Deposit Receipt
C. Promissory Note
D. Bill of Exchange
E. All (A) to (D) above are negotiable instruments

55. What Is the maximum balance amount that is eligible for earning interest in a normal savings bank account?
(1) Rs 1 lac
(2) Rs 2 lacs
(3) Rs 3 lacs
(4) Rs 5 lacs

(5) No limit

56. Which of the following functions are not being performed by the Reserve Bank of India?
A. Regulation of Banks in India
B. Regulation of Foreign Direct Investment in India
C. Foreign currency Management in India
D. Control and Supervision of Money Supply
E. Currency Management in India

57. A bank is called as 'Scheduled Bank' When
A. Its business has crossed of 1000 core mark
B. Its branch network is over 100
C. It is included in the second schedule of the RBI Act
D. When it complies with all the three above
E. None of these

58.Upper limit prescribed for RTGS transaction is-
A. Rs 1 lacs
B. Rs 2 lacs
C. Rs 5 lacs
D. Rs 50 lacs
E. No upper limit is prescribed

59. The Banking Ombudsman-
(a) is in charge of bank loans for buses
(b) fixes the rates of interest for loans
(c) resolves complaints of customers
(d) issues licenses for new bank branches
(e) is the head of all nationalized banks

60. Money laundering means-
(a) Hiding of income source mainly to avoid income Tax
(b) Money acquired through criminal source.
(c) Money acquired from undisclosed sources and deposited in foreign banks
(d) Process of conversion of money obtained illegally to appear to have originated from legitimate sources
(e) Money acquired from drug trafficking

61. Which of the following represents the correct meaning of 'REPO RATE'?
(a) Rate on which RBI sells Government Securities to Banks
(b) The rate for borrowing rupees by banks from RBI
(c) Rate offered by banks to their prime customers
(d) The rate applicable for grant of priority sector loans
(e) None of these

62. Savings bank accounts are opened by-
(a) Trading entities, manufacturing entities, and individuals for savings purposes
(b) Traders and manufactures for business purposes
(c) Individuals for savings purposes
(d) Limited companies and partnerships for savings purposes
(e) Cooperative banks for savings

63. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) are terms most closely related to which of the following industries/markets?
(a) Capital market
(b) Banking industry
(c)Commodities market
(d) Money Market
(e) Mutual fund industry

64. What is the maximum period for which domestic term deposits are normally accepted by banks in our country?
(a) 3 years
(b) 5 years
(c) 7 years
(d) 10 years
(e) 12 years

65. The Deputy Governor in charge of banking regulation and supervision is nominated as the (BFS) board:
a) Head
b) Vice-Chairman
c) President
d) None of These

66.The main function of NABARD is to provide refinance for rural credit disburse by the financial institutions as may be approved by the Reserve Bank of India:
a) State Co-operative Banks
b) The Regional Rural Banks
c) State Co-operative Banks and The Regional Rural Banks
d) None of The Above

67. NHB has been established with an objective to:
a) Operate as a principal agency to promote housing finance institutions
b) promote housing finance institutions both at local and regional levels
c) provide financial and other support incidental to such institutions and for matters connected therewith
d) All of the Above

68. Business Credit Cards are:
a) Specialized credit cards issued in the name of a registered business
b) can be used only for business purposes.

c) Both of The Above
d) None of The Above and other

69.White Label ATM means:
a) The ATM that does not have any bank logo.
b) The ATM carries the logo of RBI
c) Both of Above
d) None of These

70. Banking Ombudsman is appointed by
a) Central Finance Minister
b) Reserve Bank of India
c) SEBI
d) None of The Above

71.The securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI) meant the recovery of loans which have become NPA is not applicable to:
a) Financial Institutes of Government
b) Non - Banking Financial Companies
c) Small & Cooperative Banks
d) None of These

72. The maximum compensation by Banking Ombudsman for a complaint is:
a) Rs.1 lakh
b) Rs.2 lakh
c) Rs.5 lakh
d) Rs.10 lakh

73. A cheque has three parties, the drawer, the drawee and the payee. A) TRUE B) FALSE

74. Phone banking cannot be used in loan applications, investment purchases and redemptions, checkbook orders, debit card replacements, change of address.
A) TRUE B) FALSE

75.-------- is a term used for performing account transactions, payments via a mobile device such as a mobile phone.
a. Mobile banking
b. Phone banking
c. e-banking

76. -------- is a service provided by a bank which allows its customers to perform transactions over the telephone
a. e-banking
b. Mobile banking
c. Phone banking

77. Which of the following is known as a Savings Bank Account opened with a commercial bank with zero balance or a very minimal balance?
a. Current Account
b. No frill account
c. Savings Bank-ordinary Account
d. Students Savings Bank Account

78. What is 'fiat money'?
a. The currency backed by Government Guarantee
b. The currency backed by tangible assets
c. The currency backed by gold reserves
d. The currency backed by budgetary support

79. When more than one banks allow credit facilities to one party in coordination with each other, the process is called as
a. Amortization
b. Consortium
c. Moratorium
d. Subvention

80. What is the full form of SWIFT?
a. Safe Window for Interbank Financial Transactions
b. Safe Window In case of Financial Transaction
c. Society for Worldwide Interbank Financial Telecommunication
d. Safe Window Institute For Transactions

81. What does the letter 'S' denote in the term IFSC?
a. Subscriber
b. State
c. System
d. Source
e. Standard

82. What is the full form of NDTL?
a. New Demand & Tenure Liabilities
b. Net Demand & Time Liabilities
c. National Deposits & Total Liquidity
d. Net Demand & Tax Liabilities

83. Which of the following is the rate at which the RBI lends money to commercial banks in the event of any

shortfall of funds?
a. Benchmark Prime Lending Rate
b. Annual Percentage Rate
c. Bank Rate
d. Repo Rate

84. Which of the following pools money from various investors in order to purchase securities?
a. Fund derivative
b. Money fund
c. Mutual fund
d. Pension fund

85. What is the full form of CVV?
a. Call Verification Value
b. Card Verification Value
c. Credit Verification Value
d. None

86. What does the letter 'M' mean in the term SME as used in the financial world?
a. Maximum
b. Medium
c. Market
d. Mutual

87. Which of the following scheme was formulated by RBI?
a. Banking Ombudsman Scheme
b. Jan Dhan Yojana
c. MUDRA Bank Yojana
d. Boutique Financing Scheme

88. Which of the following is true about the functions performed by RBI?
(i) It is the Bank of Issue
(ii) It acts as banker to the Government
(iii) It is the banker of other banks
(iv) It regulates the flow of credit
a. Both (i) and (ii)
b. Both (iii) and (iv)
c. All the above
d. None of the above

89. Which of the following is the rate at which the RBI lends money to commercial banks in the event of any shortfall of funds?
a. Benchmark Prime Lending Rate
b. Annual Percentage Rate
c. Bank Rate

d. Repo Rate

90. What is the full form of CRR?
a. Cash Reserve Rate
b. Cash Reserve Ratio
c. Cash Recession Ratio
d. Core Reserve Rate

91. Who was the first Indian Governor of RBI?
a. C. D. Deshmukh
b. Benegal Rama Rau
c. R. K. Shanmukham Chetty
d. K. G. Ambegaokar

92. On which date was the Reserve Bank of India established?
a. April 1, 1935
b. July 12, 1982
c. May 26, 2006
d. September 30, 2005

93. Who was the first governor of RBI?
a. James Braid Taylor
b. Mihir Sen
c. Nagendra Singh
d. Osborne Smith
Notes : **First Governor – Sir Osborne Smith (1935)**
First Indian Governor – Sir C. D. Deshmukh (1943)
Current/26th Governor – Sanjay Malhotra (from 11 December 2024).

94. What is the most powerful tool used by the Reserve Bank of India to control inflation?
a. Raise interest rates
b. Raise current supply
c. Reduce current supply
d. Reduce interest rates

95. Who regulates monetary policy?
a. IRDA
b. RBI
c. SEBI
d. SIDBI
e. Finance Ministry

96. Name the microfinance company that becomes the first to start operation as a commercial bank?
a. Pay Tm Bank
b. Vodafone m-Pisa Bank

c. Yes Bank
d. Bandhan Bank

97. What is the full form of NBFC?
a. Non-Bank Financial Competition
b. Non-Bank Foreign Company
c. Non-Banking Financial Company
d. Non-Banking Finance Corporation

98. Who insures banks in India?
a. IRDA
b. EXIM
c. DICGC
d. ECGC

99. Among the following the correct share of Central, State and Sponsor Bank in RRBs is
a. 35%, 40%, 25%
b. 15%, 35%, 50%
c. 30%, 35%, 35%
d. 50%, 15%, 35%

100. Which of the following apex bodies regulates the RRBs?
a. RBI
c. SIDBI
b. NABARD
d. State Government

Pradhan Mantri Jan Dhan Yojana (PMJDY)
Scheme Details
Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, a basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account.
Benefits under PMJDY
One basic savings bank account is opened for unbanked person.
There is no requirement to maintain any minimum balance in PMJDY accounts.
Interest is earned on the deposit in PMJDY accounts.
Rupay Debit card is provided to PMJDY account holder.
Accident Insurance Cover of Rs.1 lakh (enhanced to Rs. 2 lakh to new PMJDY accounts opened after 28.8.2018) is available with RuPay card issued to the PMJDY account holders.
An overdraft (OD) facility up to Rs. 10,000 to eligible account holders is available.
PMJDY accounts are eligible for Direct Benefit Transfer (DBT), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), Micro Units Development & Refinance Agency Bank (MUDRA) scheme.

The microfinance company was **Bandhan Financial Services Limited (BFSL)**, which became **Bandhan Bank**.

- **Bank:** Bandhan Bank
- **Origin:** Began as a microfinance institution in 2001.
- **RBI banking license:** June 2015.
- **Commercial banking operations began: 23 August 2015**.
- **Distinction:** It became **India's first microfinance institution to transform into a universal bank**.
- It commenced operations with **501 branches** and about **1.43 crore accounts.**

Answer for an exam:

Bandhan Financial Services Limited (Bandhan) was the first microfinance institution in India to start operations as a full-fledged commercial/universal bank, as Bandhan Bank, on 23 August 2015.

Ratios Published by the RBI

The **Reserve Bank of India (RBI)** publishes several banking ratios to assess the **liquidity, solvency, asset quality, profitability, efficiency and financial performance of banks**. These ratios appear in RBI statistical publications such as the **Statistical Tables Relating to Banks in India** and other banking-statistics releases. (Reserve Bank of India)

For examination purposes, the important ratios can be grouped as follows.

1. Cash–Deposit Ratio (CD Ratio)

Formula:

Cash–Deposit Ratio = (Cash in hand + Balances with RBI) ÷ Deposits × 100

It indicates the proportion of deposits maintained by a bank in the form of **cash and balances with RBI**.

Significance:

- Indicates immediate liquidity.
- A higher ratio generally indicates greater liquidity.
- Excessively high liquidity may mean that funds are not being fully deployed.

RBI's published definition specifically includes cash in hand and balances with RBI. (Reserve Bank of India)

2. Credit–Deposit Ratio (CD Ratio)

Formula:

Credit–Deposit Ratio = Advances/Credit ÷ Deposits × 100

It shows how much of the deposits mobilized by banks are deployed as **loans and advances**.

Example:

If deposits = ₹1,000 crore and advances = ₹750 crore:

CD Ratio = 750/1,000 × 100 = **75%**

Significance:

- Measures credit deployment.

A higher ratio indicates greater utilization of deposits for lending.

- An excessively high ratio may indicate liquidity pressure.

RBI regularly publishes credit-deposit ratios among important banking indicators. (Reserve Bank of India)

3. Investment–Deposit Ratio

Formula:

Investment–Deposit Ratio = Investments ÷ Deposits × 100

It indicates the proportion of deposits invested by banks in securities and other eligible investments.

RBI's definition of investments for this ratio includes **total investments, including non-SLR securities**. (Reserve Bank of India)

Significance:

- Shows the extent to which deposits are deployed in investments rather than loans.
- Helps analyze asset deployment and liquidity.

4. Capital Adequacy Ratio (CRAR)
Formula in broad terms:
CRAR = Regulatory Capital ÷ Risk-Weighted Assets × 100
It measures whether a bank has sufficient capital to absorb potential losses arising from its risks.
Significance:

- Measures **solvency and financial strength**.
- Higher capital provides a larger cushion against losses.
- It is a key prudential banking ratio.

RBI's banking statistics publish CRAR and CET1 ratios for bank groups. (Reserve Bank of India)

5. Gross NPA Ratio
Formula:
Gross NPA Ratio = Gross NPAs ÷ Gross Advances × 100
It measures the proportion of a bank's advances that have become **non-performing assets (NPAs)** before adjusting for provisions.
Significance:

- Measures the quality of the loan portfolio.
- Higher ratio = poorer asset quality.
- Lower ratio = generally better asset quality.

6. Net NPA Ratio
Formula:
Net NPA Ratio = Net NPAs ÷ Net Advances × 100
Net NPAs are gross NPAs after taking eligible provisions and adjustments into account.
Significance:

- Gives a better indication of the **actual stressed portion of the loan portfolio after provisions**.
- A lower Net NPA Ratio is generally preferable.

RBI identifies gross NPA, net NPA and related asset-quality indicators among the banking statistics available to the public. (Reserve Bank of India)

7. Provision Coverage Ratio (PCR)
Broad formula:
PCR = Provisions against NPAs ÷ Gross NPAs × 100
It indicates how much of a bank's bad loans are covered by provisions.
Example:
If Gross NPA = ₹100 crore and provisions = ₹70 crore:
PCR = 70/100 × 100 = **70%**
Significance:

- Higher PCR generally means stronger protection against potential losses from NPAs.
- It is an important **asset-quality and resilience indicator**.

RBI includes Provision Coverage Ratio among its banking-sector indicators. (System Health)

Profitability Ratios

8. Return on Assets (RoA)

Formula:

RoA = Net Profit ÷ Total Assets × 100

It measures the profit generated from the bank's assets.

Example:

If a bank has ₹10,000 crore of assets and earns ₹100 crore profit:

RoA = 100/10,000 × 100 = **1%**

RBI publishes RoA as a key profitability indicator. (Reserve Bank of India)

9. Return on Equity (RoE)

Formula:

RoE = Net Profit ÷ Shareholders' Equity × 100

RBI's historical published definition uses **capital plus reserves and surplus** as the denominator. (Reserve Bank of India)

Significance:

- Measures the return earned on shareholders' funds.
- Higher RoE generally indicates better profitability from the owners' perspective.

10. Net Interest Margin (NIM)

Formula:

NIM = Net Interest Income ÷ Relevant earning assets × 100

Net interest income broadly represents:

Interest earned – Interest paid

RBI's published ratio definitions describe net interest margin using interest earned less interest paid. (Reserve Bank of India)

Significance:

- Shows how effectively a bank earns from its interest-bearing assets after meeting its interest costs.
- It is one of the most important measures of banking profitability.

11. Interest Income to Total Assets

Formula:

Interest Income ÷ Total Assets × 100

It indicates the amount of interest income generated relative to the bank's asset base. RBI includes this among its published financial ratios. (Reserve Bank of India)

12. Non-Interest Income to Total Assets

Formula:

Other/Non-interest Income ÷ Total Assets × 100

It indicates the contribution of **fee income, commission, trading income and other non-interest sources** relative to assets.

13. Operating Profit to Total Assets
Formula:
Operating Profit ÷ Total Assets × 100
It measures the operating profitability generated by the bank's assets before certain provisions and contingencies.
RBI defines operating profit as total earnings less total expenses, excluding provisions and contingencies. (Reserve Bank of India)

Cost Ratios
14. Cost of Deposits
Formula:
Cost of Deposits = Interest Paid on Deposits ÷ Deposits × 100
It measures how much a bank pays for mobilizing deposits.

15. Cost of Borrowings
Formula:
Cost of Borrowings = Interest Paid on Borrowings ÷ Borrowings × 100
It indicates the cost incurred by a bank on borrowed funds.

16. Cost of Funds
Formula:
Cost of Funds = (Interest Paid on Deposits + Interest Paid on Borrowings) ÷ (Deposits + Borrowings) × 100
It provides an overall indication of the cost of the bank's major sources of funds. RBI publishes these definitions in its banking-ratio framework. (Reserve Bank of India)

Return Ratios
17. Return on Advances
Formula:
Return on Advances = Interest Earned on Advances and Bills ÷ Advances × 100
It measures the interest yield generated from loans and advances.

18. Return on Investments
Formula:
Return on Investments = Interest Earned on Investments ÷ Investments × 100
It measures the return generated from the bank's investment portfolio. (Reserve Bank of India)

19. Return on Advances Adjusted to Cost of Funds
Formula:
Return on Advances − Cost of Funds
It indicates the spread earned by the bank on advances after considering the cost of its funds.

20. Return on Investment Adjusted to Cost of Funds
Formula:
Return on Investments − Cost of Funds
It measures the return from investments after taking the cost of funds into consideration. (Reserve Bank of India)

Other Important Banking Ratios

RBI statistical tables and banking returns also contain ratios such as:

Ratio	What it indicates
Deposits / Assets	Importance of deposits in the bank's asset-liability structure
Investments / Assets	Proportion of assets held as investments
Net Loans / Assets	Extent of asset deployment in loans
Term Deposits / Total Deposits	Share of term deposits in total deposits
Certificates of Deposit / Total Deposits	Importance of CDs in deposit funding
SLR Securities / Investments	Proportion of investments represented by SLR securities
Priority Sector Credit / Total Credit	Lending to priority sectors
Agriculture Credit / Total Credit	Agricultural lending
Export Credit / Total Credit	Export-related lending
Weaker Sections / Total Credit	Credit to weaker sections
Business per Employee	Employee productivity
Profit per Employee	Profitability/productivity of employees
Burden / Total Assets	Operating burden relative to assets

RBI statistical tables and banking returns contain several of these balance-sheet, portfolio-growth, policy-lending and performance ratios. (Reserve Bank of India)

Easy classification for examinations

You can remember RBI banking ratios under **6 major heads**:

1. Liquidity

- Cash–Deposit Ratio
- Credit–Deposit Ratio
- Investment–Deposit Ratio

2. Solvency

- CRAR
- CET1 Ratio
- Leverage Ratio

3. Asset Quality

- Gross NPA Ratio
- Net NPA Ratio
- Provision Coverage Ratio

4. Profitability

- RoA
- RoE
- NIM
- Operating Profit/Assets

5. Cost & Return

- Cost of Deposits
- Cost of Borrowings
- Cost of Funds
- Return on Advances
- Return on Investments

6. Lending/Deployment

- Priority Sector/Total Credit
- Agriculture/Total Credit
- Export Credit/Total Credit
- Weaker Sections/Total Credit

Important: RBI publishes different sets of ratios in different statistical publications and for different categories of banks; therefore, there is **not one single universal list called "the RBI ratios."** The RBI's *Statistical Tables Relating to Banks in India* specifically provides entity-wise information and selected financial ratios. (Reserve Bank of India)

RBI - Monetary policy ratios

If by **"monetary policy ratios"** you mean the **reserve ratios used by the RBI as monetary-policy instruments**, the two most important are **CRR and SLR**. RBI's monetary-policy framework also uses policy rates and liquidity-management instruments.

1. Cash Reserve Ratio (CRR)

Meaning:

CRR is the percentage of a bank's **Net Demand and Time Liabilities (NDTL)** that the bank is required to maintain as a cash balance with the RBI.

Effect:

- **Increase in CRR →** banks have less money available for lending → money supply/liquidity decreases.
- **Decrease in CRR →** banks have more money available for lending → liquidity increases.

Example:

If NDTL = ₹1,000 crore and CRR = 3%, the bank must maintain:

₹1,000 crore × 3% = ₹30 crore

with RBI.

RBI's currently published rate page lists **CRR at 3.00%** (July 2026 data shown on the RBI page).

2. Statutory Liquidity Ratio (SLR)

Meaning:

SLR is the percentage of a bank's NDTL that it must maintain in the form of **liquid assets**, such as cash, gold and eligible securities, as prescribed under the regulatory framework.

Effect:

- **Increase in SLR →** reduces funds available for lending.
- **Decrease in SLR →** increases funds available for lending.

RBI's currently published rate page lists **SLR at 18.00%**.

3. CRR vs SLR

Basis	**CRR**	**SLR**
Full form	Cash Reserve Ratio	Statutory Liquidity Ratio
Maintained with	**RBI**	**Bank itself**, in prescribed liquid assets
Main purpose	Control banking-system liquidity	Ensure liquidity and statutory asset holdings
Increase in ratio	Reduces lending capacity	Reduces lending capacity
Decrease in ratio	Increases lending capacity	Increases lending capacity

Other important monetary-policy rates

These are **rates rather than ratios**, but they are essential monetary-policy instruments:

1. **Repo Rate** – rate at which RBI provides liquidity to banks against eligible collateral.
2. **SDF Rate (Standing Deposit Facility)** – facility through which banks can park funds with RBI without providing collateral.
3. **MSF Rate (Marginal Standing Facility)** – overnight borrowing facility for eligible banks, generally at a rate above the repo rate.
4. **Bank Rate** – standard rate published by RBI under the RBI Act.

5. **Reverse Repo Rate** – rate at which RBI absorbs liquidity from banks under the relevant reverse-repo operations.

Other monetary-policy/liquidity instruments

- **Open Market Operations (OMO)**
- **Liquidity Adjustment Facility (LAF)**
- **Variable Rate Repo/Reverse Repo**
- **Marginal Standing Facility (MSF)**
- **Standing Deposit Facility (SDF)**
- **Long-Term Repo Operations (LTRO)**
- **Foreign Exchange Swaps**
- **Market Stabilisation Scheme (MSS)**

Easy examination formula

Monetary policy instruments →

Quantitative instruments

- **CRR**
- **SLR**
- **Repo/Reverse Repo**
- **Bank Rate**
- **OMO**
- **MSF/SDF**

Qualitative instruments

- Selective credit controls
- Margin requirements
- Credit rationing
- Moral suasion
- Direct action

Remember: CRR = cash with RBI; SLR = prescribed liquid assets maintained by the bank.

The rate at which the RBI lends money to commercial banks against eligible securities to meet short-term liquidity requirements is called the Repo Rate.

✅ **Answer: Repo Rate**

Repo Rate (Repurchase Rate):

It is the rate at which the RBI lends short-term funds to commercial banks against eligible securities, with an agreement that the banks will repurchase the securities at a specified date.

Example

If a commercial bank faces a temporary shortfall of funds, it can borrow from RBI through a repo transaction.

RBI → lends funds → Commercial Bank

The interest charged by RBI on this borrowing is the Repo Rate.

Exam distinction

Term	Meaning
Repo Rate	**Rate at which RBI lends short-term funds to banks**
Reverse Repo Rate	**Rate associated with RBI absorbing liquidity from banks**
Bank Rate	**Rate specified by RBI under the RBI Act and used as a reference for certain monetary-policy/penal purposes**
MSF Rate	**Rate at which eligible banks can obtain overnight funds from RBI under the Marginal Standing Facility**

One-line answer:
Repo Rate is the rate at which RBI lends money to commercial banks to meet their short-term liquidity/fund requirements.

When **more than one bank is involved in a banking transaction or activity**, it is generally referred to as **inter-bank activity** or **multi-bank banking activity**. Important activities include:

Major activities involving more than one bank

1. **Consortium lending** – Two or more banks jointly finance a borrower, particularly for large projects or loans.
2. **Multiple banking arrangement** – A borrower obtains separate credit facilities from several banks, with each bank independently assessing and financing the borrower.
3. **Syndicated lending** – Several banks jointly provide a large loan under a common loan agreement, usually with one bank acting as the lead/agent bank.
4. **Co-lending** – Two regulated lenders jointly provide loans to eligible borrowers under an agreed framework.
5. **Inter-bank borrowing and lending** – Banks lend to or borrow from other banks, particularly for short-term liquidity management.
6. **Call money transactions** – Banks borrow and lend funds, generally on an overnight basis, in the call money market.
7. **Clearing and settlement** – Banks exchange and settle cheques, payment instructions and other transactions through clearing systems.
8. **Payment-system transactions** – Banks transfer funds between customers of different banks through systems such as **NEFT, RTGS and IMPS**.
9. **Correspondent banking** – One bank provides banking or payment services on behalf of another bank.
10. **Letter of Credit (LC)** – More than one bank may participate, such as the issuing bank, advising bank, confirming bank and negotiating bank.
11. **Bank guarantees** – Another bank may advise, confirm or facilitate a guarantee issued by the principal bank.
12. **Bills of exchange/documentary bills** – Banks may participate in collecting, negotiating or financing trade bills involving customers of different banks.
13. **Inter-bank foreign exchange transactions** – Banks buy and sell foreign currencies among themselves.
14. **Treasury transactions** – Banks transact with other banks in government securities, money-market instruments and other permitted financial instruments.
15. **Loan participation/assignment** – A bank may transfer or participate in another bank's loan exposure, subject to applicable regulations.

16. **Securitization transactions** – Banks may transfer eligible financial assets and participate in securitization structures involving other financial institutions.
17. **Nostro/Vostro banking** – Banks maintain accounts with other banks, especially for international transactions.
18. **ATM/debit-card network transactions** – A customer's bank and the bank operating the ATM/payment infrastructure may both be involved.
19. **UPI transactions** – Multiple banks can be involved through the customer's bank, beneficiary bank and payment-system participants.
20. **Bank-to-bank reconciliation** – Banks reconcile transactions and settlement positions arising from their mutual dealings.

Particularly important for banking examinations

The terms most commonly distinguished are:

Arrangement	Main feature
Consortium banking	Banks jointly finance the same borrower under a coordinated arrangement
Multiple banking	Borrower has facilities from several banks independently
Syndicated loan	Several banks jointly provide one large loan under common documentation
Co-lending	Two lenders jointly originate a loan according to an agreed arrangement
Correspondent banking	One bank provides services for another bank
Inter-bank transactions	Banks transact directly with one another

In short: When a question asks *"activities when more than one bank is involved"*, the key concepts to remember are **consortium banking, multiple banking, syndicated lending and co-lending**, while clearing, payment, correspondent and treasury transactions are other major examples.

FCCB – Foreign Currency Convertible Bond

FCCB stands for **Foreign Currency Convertible Bond**.

It is a type of **bond issued by an Indian company in a foreign currency**, which gives the bondholder the option to **convert the bond into equity shares of the issuing company** after a specified period and subject to specified terms.

Key features of FCCBs

1. **Foreign currency denomination** – The bond is issued in a currency such as US dollars, euros, etc.
2. **Issued by companies** – Generally issued by eligible Indian companies to raise funds from international investors.
3. **Convertible into equity** – The investor has an option to convert the bond into the company's equity shares.
4. **Interest payment** – FCCBs normally carry a specified coupon/interest rate.
5. **Redemption** – If the investor does not convert the bond, it is generally redeemed according to the terms of the issue.
6. **International investors** – FCCBs provide access to foreign/international capital markets.
7. **Foreign-exchange risk** – Since the bond is denominated in foreign currency, exchange-rate movements can affect the issuer and/or investor.
8. **Hybrid instrument** – It combines characteristics of **debt and equity**.

How an FCCB works

Indian Company

↓ Issues bond in foreign currency

Foreign Investor

↓ Pays foreign currency

Indian Company receives funds

↓ At maturity

Investor can either:

- **Convert** the bond into equity shares, **or**
- **Receive redemption** according to the terms of the bond.

Example

Suppose an Indian company issues an FCCB of **US$10 million**.

The bond carries **4% interest** and can be converted into the company's shares at a predetermined conversion price.

The investor can:

- Continue holding the bond and receive interest; or
- Convert it into shares if the company's share price makes conversion attractive.

Advantages

For the company:

- Access to international capital.
- Potentially lower interest cost than conventional foreign-currency debt.
- Possibility of converting debt into equity, reducing repayment obligations.

For the investor:

- Receives interest.
- Gets an opportunity to benefit from an increase in the company's share price.
- Has debt characteristics if conversion is not exercised.

Disadvantages/Risks

- Foreign-exchange risk.
- Share-price volatility.
- Possible dilution of existing shareholders when conversion occurs.
- Refinancing/redemption risk if investors do not convert.
- Regulatory compliance requirements.

FCCB vs FCEB

FCCB	**FCEB**
Foreign Currency Convertible Bond	Foreign Currency Exchangeable Bond
Converts into **equity shares of the issuing company**	Can be exchanged for **shares of another company**, subject to the structure
Hybrid debt-equity instrument	Hybrid debt-equity instrument

IIBF- BC / BF Notes

Exam definition:

FCCB is a foreign-currency-denominated bond issued by an eligible company that gives the bondholder an option to convert the bond into equity shares of the issuing company at predetermined terms.

Mutilated Notes

Mutilated notes are **banknotes that are damaged, torn, cut, burnt, washed, or otherwise physically altered**, and which have **missing portions or more than two pieces joined together**.

Examples

- A ₹500 note torn into two or more pieces and rejoined.
- A note with a substantial portion missing.
- A note damaged by fire, water, chemicals, etc.
- A note consisting of several pieces pasted together.

Important distinction

Type of note	Meaning
Soiled note	Note that has become dirty or slightly damaged through normal use
Mutilated note	Note that is damaged/altered and has a missing portion or consists of pieces joined together
Imperfect note	Note that is wholly or partially obliterated, shrunk, washed, altered or otherwise unclear, but does not fall within the definition of a mutilated note

Exchange

Mutilated notes can generally be **presented for exchange at bank branches** under the RBI's **Note Refund Rules**, subject to the applicable rules for determining their value.

Exam answer:

Mutilated notes are banknotes that are damaged, torn, cut, burnt, or otherwise altered and which have a missing portion or are composed of more than two pieces joined together.

Small Account in Banks

A **Small Account** is a simplified bank account permitted under RBI's **KYC framework** for individuals who may not be able to provide the full set of officially valid documents normally required for opening a regular account.

It is particularly useful for promoting **financial inclusion** and bringing low-income/unbanked persons into the formal banking system.

1. Who can open a Small Account?

A Small Account can be opened by an **individual**, subject to the applicable RBI KYC requirements.

It may be opened where the customer is unable to provide the normal **Officially Valid Document (OVD)** for identity/address verification, subject to the prescribed conditions and limits.

2. Procedure for Opening a Small Account

The general procedure is:

Step 1 – Approach the bank

The customer approaches a bank branch or an authorized banking outlet offering the facility.

Step 2 – Submit account-opening form

The customer fills in the bank's account-opening form and provides the information required by the bank.

Step 3 – Photograph and basic identification

The bank obtains the customer's **recent photograph** and required basic details.

Step 4 – Introduction/verification

The bank conducts the identification and verification required under the applicable KYC rules.

Step 5 – Declaration
The customer provides the required declaration regarding identity, address and other information as prescribed by the bank/RBI framework.
Step 6 – Account opening
After completing the prescribed checks, the bank opens the Small Account and provides the customer with the account number/passbook or other account-access facility.

3. Restrictions on a Small Account
A Small Account is subject to **specific limits** because it is opened under simplified KYC requirements.
Under the current RBI KYC framework, the important limits include:

- **Balance:** The balance at any point of time should not exceed **₹50,000**.
- **Total credits:** Total credits in the account in a financial year should not exceed **₹1,00,000**.
- **Withdrawals/transfers:** Total withdrawals and transfers in a month should not exceed **₹10,000**.

These limits are important because the account is intended to provide **basic banking access with simplified KYC**, rather than unrestricted banking facilities.

4. Validity of a Small Account
A Small Account opened under simplified KYC is subject to **time-bound validity/verification requirements**.
The account is initially permitted for the prescribed period, and the customer is expected to provide the required **Officially Valid Document** or complete the applicable KYC process within the prescribed period.
If the required KYC is not completed, the bank may **restrict further transactions** in accordance with RBI instructions.

5. Closing a Small Account
A customer can normally request closure of the account by:

1. Visiting the bank branch or using the bank's permitted account-closure channel.
2. Submitting the account-closure request.
3. Providing the required identification/account details.
4. Settling outstanding charges or liabilities, if any.
5. Withdrawing/transferring the remaining balance.
6. Returning the passbook, cheque book, debit card or other instruments where required.
7. The bank closes the account after completing its verification and internal procedures.

Bank-initiated closure/restriction
The bank may also restrict or close the account where:

- The customer does not complete required KYC.
- The account violates prescribed Small Account limits.
- There are regulatory/KYC/AML concerns.
- The account remains inactive/dormant and applicable procedures are followed.

6. Benefits of Small Accounts
1. Financial inclusion
It allows people without complete conventional KYC documentation to enter the **formal banking system**.
2. Easy access to banking
Customers can obtain basic banking services without initially satisfying all the requirements of a regular account.

3. Savings
The customer can safely keep money in a bank instead of keeping cash at home.
4. Government benefits
Bank accounts facilitate receipt of eligible **government benefits, subsidies and direct transfers**.
5. Access to digital banking
Subject to the bank's facilities and applicable rules, customers may obtain services such as debit cards and digital payment facilities.
6. Banking history
Maintaining an account can help a customer establish a relationship with the formal financial system.
7. Lower barriers for vulnerable customers
Small Accounts can particularly help persons with limited documentation or limited access to formal banking.

Small Account – Quick Revision

Particular	**Small Account**
Purpose	Financial inclusion
Who can open?	Individual meeting prescribed conditions
KYC	Simplified KYC framework
Maximum balance	**₹50,000**
Maximum annual credits	**₹1 lakh**
Maximum monthly withdrawals/transfers	**₹10,000**
Main benefit	Basic banking access with simplified KYC
KYC upgrade	Customer can complete full KYC to move to a regular account

Exam answer
A Small Account is a bank account opened under the RBI's simplified KYC provisions for individuals who may not initially be able to provide the documents required for a regular account. It facilitates financial inclusion but is subject to prescribed limits on balance, credits and withdrawals/transfers.

Major Schemes and Initiatives Formulated by RBI
The **Reserve Bank of India (RBI)** has introduced numerous schemes, policies and initiatives for **financial inclusion, agricultural credit, priority-sector lending, customer protection, payment systems, banking development and monetary management**.
For banking examinations, the following are particularly important:
A. Financial Inclusion and Banking Access

1. **Lead Bank Scheme (LBS)** – promotes coordinated banking development in districts.
2. **Service Area Approach (SAA)** – assigned bank branches responsibility for specified areas, particularly for rural credit.
3. **No-Frills Account Scheme** – introduced basic bank accounts with low minimum-balance requirements; subsequently evolved into the **Basic Savings Bank Deposit Account (BSBDA)** framework.
4. **Basic Savings Bank Deposit Account (BSBDA)** – provides basic banking facilities with no minimum balance requirement.
5. **Small Account Scheme** – simplified KYC-based accounts subject to prescribed limits.
6. **Financial Inclusion Plans (FIPs)** – structured plans for expanding banking services to underserved populations.

7. **Business Correspondent (BC) Model** – enables banks to provide services through authorized agents.
8. **Business Facilitator (BF) Model** – facilitates certain banking-related activities without performing the full functions of a banking outlet.

B. Agricultural and Rural Credit

9. **Kisan Credit Card (KCC) Scheme** – provides timely and flexible credit to farmers.
10. **General Credit Card (GCC) Scheme** – facilitates credit for non-farm entrepreneurial and other productive activities.
11. **SHG–Bank Linkage Programme** – connects Self-Help Groups with the formal banking system.
12. **Microfinance framework** – RBI's regulatory framework for microfinance lending.
13. **Priority Sector Lending (PSL)** framework – directs a specified portion of bank credit toward priority sectors such as agriculture and MSMEs.

C. MSME and Small-Business Credit

14. **Credit Guarantee schemes/frameworks for MSMEs** – facilitate collateral-free or credit-guaranteed lending through eligible institutions.
15. **MUDRA-related banking framework** – supports micro-enterprise lending through the formal financial system.
16. **Credit-linked initiatives for small enterprises** – RBI has issued various regulatory and prudential measures supporting MSME financing.

D. Customer Protection

17. **Banking Ombudsman Scheme** – provided a mechanism for resolving customer complaints against banks.
18. **Integrated Ombudsman Scheme, 2021** – consolidated the earlier Banking Ombudsman and related RBI Ombudsman schemes under a single framework.
19. **Customer Service Guidelines** – standards concerning customer service, account operations, transparency and grievance redressal.
20. **Compensation and grievance-redressal frameworks** – mechanisms for customer protection in banking and payment services.

E. Payment and Settlement Systems

21. **Electronic Clearing Service (ECS)**
22. **National Electronic Funds Transfer (NEFT)**
23. **Real Time Gross Settlement (RTGS)**
24. **Immediate Payment Service (IMPS)** – operated by NPCI, within the broader RBI-regulated payment ecosystem.
25. **National Automated Clearing House (NACH)** – operated by NPCI.
26. **Cheque Truncation System (CTS)**
27. **Unified Payments Interface (UPI)** – developed and operated by NPCI under RBI's payment-system regulatory framework.
28. **Bharat Bill Payment System (BBPS)** – NPCI-operated payment infrastructure under the regulatory framework.

F. Monetary and Credit Management

29. **Liquidity Adjustment Facility (LAF)**
30. **Marginal Standing Facility (MSF)**
31. **Standing Deposit Facility (SDF)**
32. **Market Stabilisation Scheme (MSS)**
33. **Open Market Operations (OMO)**
34. **Repo and Reverse Repo operations**

35. **Cash Reserve Ratio (CRR) framework**
36. **Statutory Liquidity Ratio (SLR) framework**

G. Banking Development

37. **Priority Sector Lending Scheme/framework**
38. **Differential Rate of Interest (DRI) Scheme** – concessional lending to certain economically weaker sections.
39. **NABARD-related refinance and rural-credit initiatives**
40. **Regional Rural Banks (RRBs) framework**
41. **Local Area Banks framework**
42. **Payments Banks framework**
43. **Small Finance Banks framework**
44. **Universal Banking framework**

H. Special Banking/Financial Schemes

45. **Export Credit schemes/frameworks**
46. **Interest Subvention schemes** for eligible sectors under government-supported programmes.
47. **Rehabilitation/resolution frameworks for stressed borrowers**
48. **Restructuring schemes for agricultural and MSME borrowers**
49. **Financial Literacy initiatives**
50. **Deposit insurance-related framework** in coordination with DICGC.

Important distinction for examinations

Not every scheme in the above list was **solely formulated by RBI**. Some were:

- **RBI schemes/frameworks**
- **Government of India schemes implemented through banks**
- **NPCI payment systems regulated/overseen by RBI**
- **Joint initiatives of RBI, Government and other institutions**

For example:

Scheme/initiative	**Main institution**
Lead Bank Scheme	**RBI**
Kisan Credit Card	**RBI/NABARD/banks; Government support**
SHG–Bank Linkage	**NABARD-led**
Banking Ombudsman	**RBI**
Integrated Ombudsman Scheme	**RBI**
NEFT	**RBI**
RTGS	**RBI**
UPI	**NPCI under RBI regulation**
PM Jan-Dhan Yojana	**Government of India**, implemented through banks
MUDRA	**Government of India / MUDRA**, implemented through lending institutions
PM SVANidhi	**Government of India**, implemented through lending institutions

⭐ **Most important RBI schemes to remember**

For a **banking exam**, concentrate especially on:

Lead Bank Scheme → No-Frills Account → BSBDA → Small Account → Financial Inclusion Plans → BC/BF Model → KCC → GCC → DRI Scheme → Banking Ombudsman → Priority Sector Lending → LAF → MSF → SDF → NEFT → RTGS.

If the question is specifically **"Schemes formulated by RBI"**, the answer should distinguish these from **Government schemes such as PMJDY, PM-KISAN, MUDRA and PM Svanidhi**.

Types of Credit Cards

A **credit card** is a payment card that allows the cardholder to purchase goods/services or withdraw cash using a **pre-approved credit limit**, with repayment made later according to the card's terms.

Credit cards can be classified according to their **purpose, target customers, benefits and payment arrangements**.

1. Standard / Regular Credit Card

- Basic credit card for everyday purchases.
- Has a predetermined credit limit.
- Suitable for general shopping, bills and online transactions.

2. Premium Credit Card

Designed for customers seeking additional benefits such as:

- Higher credit limits
- Airport lounge access
- Concierge services
- Travel benefits
- Reward programmes

Examples include **Gold, Platinum and Signature-type cards**, depending on the issuer.

3. Secured Credit Card

- Issued against a **fixed deposit or other security**.
- Useful for customers with limited or no credit history.
- The credit limit is generally linked to the security provided.

4. Unsecured Credit Card

- Issued without collateral.
- The bank determines the credit limit based on factors such as income, credit history and repayment capacity.

5. Rewards Credit Card

Provides points or rewards for eligible transactions.

Rewards may be redeemed for:

- Shopping
- Merchandise
- Vouchers
- Travel
- Other benefits

6. Cashback Credit Card

Provides a percentage of eligible spending back to the cardholder as **cashback or statement credit**.

7. Travel Credit Card

Designed for frequent travelers.

Benefits may include:

- Air miles/reward points
- Airport lounge access
- Travel insurance
- Hotel benefits
- Foreign-exchange-related benefits

8. Fuel Credit Card

Designed primarily for fuel purchases.

Possible benefits:

- Fuel surcharge waiver
- Reward points
- Cashback or discounts at participating fuel stations

9. Shopping / Lifestyle Credit Card

Provides special rewards, discounts or offers on:

- Shopping
- Restaurants
- Entertainment
- Online purchases
- Lifestyle services

10. Co-branded Credit Card

Issued by a bank/card issuer **in association with another company or organization**.

Examples of partners can include:

- Airlines
- Retailers
- Fuel companies
- E-commerce companies
- Hotels

The card generally provides benefits connected with the partner.

11. Corporate Credit Card

Issued for **business/corporate expenses**.

It can help companies:

- Control employee expenses
- Set spending limits
- Monitor transactions
- Simplify expense reporting

12. Business Credit Card

Designed for small businesses, professionals and entrepreneurs.

It may provide:

- Business expense management
- Employee cards
- Business rewards
- Cash-flow flexibility

13. Add-on / Supplementary Credit Card

An additional card issued to a family member or authorized person linked to the **primary cardholder's account**. The primary cardholder generally remains responsible for the outstanding dues.

14. Student Credit Card

Designed for eligible students, generally with:

- Lower credit limits
- Student-oriented benefits
- Simplified eligibility requirements, depending on the issuer

15. Balance Transfer Credit Card

Allows eligible outstanding credit-card debt to be **transferred from another card**, generally under specified promotional or repayment terms.

16. Low-Interest / Low-APR Credit Card

Designed with a relatively lower interest rate for eligible customers, subject to the issuer's terms.

17. Zero/Low Annual Fee Credit Card

Cards where the annual/renewal fee is nil or relatively low, subject to the applicable conditions.

Quick Classification

Type	Main purpose
Standard	General spending
Premium	Enhanced privileges
Secured	Credit against security/FD
Unsecured	Credit without collateral
Rewards	Earn reward points
Cashback	Receive cashback
Travel	Travel-related rewards
Fuel	Fuel-related benefits
Shopping	Shopping/lifestyle offers
Co-branded	Benefits from partner brand
Corporate	Company expenses
Business	Small-business expenses
Add-on	Additional authorized card
Student	Student spending
Balance Transfer	Transfer existing card debt
Low-interest	Lower borrowing cost
No/Low-fee	Reduced annual charges

⭐ **Exam point**

The **most commonly asked types** are:

Standard, Gold, Platinum/Premium, Secured, Unsecured, Rewards, Cashback, Travel, Fuel, Co-branded, Corporate, Business and Add-on cards.

Important: Names such as *Gold, Platinum, Signature, Titanium* are **product/branding categories rather than universally standard regulatory classifications**; exact features and eligibility vary between card issuers.

Negotiable Instruments Used in Banks

A **negotiable instrument** is a written instrument that creates a right to payment of a specified sum of money and can generally be transferred from one person to another according to law.

In India, the principal negotiable instruments are recognized under the **Negotiable Instruments Act, 1881**.

1. Promissory Note

A **promissory note** is a written and signed unconditional undertaking by one person to pay a certain sum of money to, or to the order of, a specified person or to the bearer of the instrument.

Parties:

- **Maker** – promises to pay
- **Payee** – receives payment

Example:

A signs a written promise to pay B ₹50,000.

2. Bill of Exchange

A **bill of exchange** is a written and signed unconditional order directing one person to pay a certain sum of money to another person or to their order.

Parties:

- **Drawer** – makes the order
- **Drawee** – person directed to pay
- **Payee** – person to whom payment is made

Example:

A orders B to pay ₹1,00,000 to C.

3. Cheque

A **cheque** is a bill of exchange drawn on a specified banker and payable on demand.

Parties:

- **Drawer** – person who issues the cheque
- **Drawee bank** – bank directed to make payment
- **Payee** – person receiving payment

Examples:

- Account-payee cheque
- Crossed cheque
- Bearer cheque
- Order cheque
- Post-dated cheque
- Ante-dated cheque

Other Banking Instruments Commonly Discussed

Apart from the three principal instruments specifically recognised as negotiable instruments under the Negotiable Instruments Act, banking practice includes several **negotiable or transferable instruments/documents**.

4. Demand Draft (DD)

A bank-issued instrument directing payment of a specified amount to the named person/order.

5. Banker's Cheque / Pay Order

An instrument issued by a bank for making payment to a specified beneficiary.

6. Bills of Lading

A document used in international and domestic trade that represents/records rights relating to goods being transported. It may have negotiable characteristics depending on its form and applicable law.

7. Hundis

Traditional Indian indigenous instruments used for credit and remittance transactions.

Important types include:

- **Darshani Hundi**
- **Muddati Hundi**
- **Shahjog Hundi**
- **Namjog Hundi**
- **Dhani Jog Hundi**
- **Jokhmi Hundi**

Classification for Examination

Instrument	Basic nature	Principal parties
Promissory Note	Promise to pay	Maker, Payee
Bill of Exchange	Order to pay	Drawer, Drawee, Payee
Cheque	Bill of exchange drawn on banker, payable on demand	Drawer, Bank, Payee
Demand Draft	Bank-issued payment instrument	Issuing bank, Payee
Banker's Cheque	Bank-issued payment instrument	Issuing bank, Payee
Hundi	Indigenous credit/remittance instrument	Varies by type

⭐ **Most important exam point**

Under **Section 13 of the Negotiable Instruments Act, 1881**, the expression **"negotiable instrument"** means a **promissory note, bill of exchange or cheque payable either to order or to bearer**.

Therefore, if the question is:

"What are the negotiable instruments under the Negotiable Instruments Act?"

The safest answer is:

1. Promissory Note

2. Bill of Exchange

3. Cheque

Other instruments such as **Demand Drafts, Pay Orders and Hundis** are important banking instruments but should not automatically be described as the three statutory negotiable instruments under Section 13.

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RBI Tools to Control Inflation and Deflation

The **Reserve Bank of India (RBI)** uses **monetary policy tools** to control inflation and support economic activity during deflationary conditions.

1. Tools used to control Inflation

When inflation is high, RBI generally follows a **contractionary monetary policy** to reduce excess liquidity and credit.

RBI tool	Action during inflation	Effect
Repo Rate	Increase	Borrowing becomes costlier → credit falls
CRR	Increase	Banks have less lendable funds
SLR	Increase	Reduces funds available for lending
SDF/Reverse Repo operations	Increase/strengthen absorption	Banks Park more funds with RBI
Bank Rate	Increase	Credit becomes more expensive
Open Market Operations	Sell government securities	Absorbs money from the economy
Credit controls	Tighten	Reduces excessive credit creation

Result:

Money supply ↓ → Credit ↓ → Demand ↓ → Inflationary pressure ↓

2. Tools used to control Deflation

When there is deflation or insufficient economic activity, RBI generally follows an **expansionary/accommodative monetary policy**.

RBI tool	Action during deflation	Effect
Repo Rate	Decrease	Borrowing becomes cheaper → credit increases
CRR	Decrease	Banks have more funds to lend
SLR	Decrease, where applicable	Greater lending capacity
Policy/liquidity absorption rates	Reduce/adjust	Encourages deployment of funds
Bank Rate	Decrease	Reduces cost of credit
Open Market Operations	Buy government securities	Injects money into economy
Credit controls	Relax	Encourages credit expansion

Result:

Money supply ↑ → Credit ↑ → Investment & consumption ↑ → Economic activity ↑

Easy memory trick

To fight INFLATION:

Increase rates/ratios + Sell securities → Money supply decreases.

To fight DEFLATION:

Decrease rates/ratios + Buy securities → Money supply increases.

⭐ **One-line examination answer**

RBI controls inflation and deflation mainly through monetary-policy instruments such as the Repo Rate, CRR, SLR, SDF, MSF, Bank Rate and Open Market Operations (OMO).

Note: In modern RBI monetary policy, the **policy repo rate is the principal policy rate**, while the RBI uses the broader liquidity framework to maintain appropriate monetary and financial conditions.

DICGC – Functions

DICGC stands for **Deposit Insurance and Credit Guarantee Corporation**. It is a **wholly owned subsidiary of the RBI**, established under the **Deposit Insurance and Credit Guarantee Corporation Act, 1961**. Its principal present function is **deposit insurance**. (DICGC)

Main Functions of DICGC

1. **Provides deposit insurance**
   - Protects depositors against loss arising from the failure of an insured bank.
   - It covers deposits such as **savings, current, fixed and recurring deposits**, subject to the prescribed exclusions and limits. (DICGC)
2. **Protects small depositors**
   - Its major objective is to protect depositors, particularly **small depositors**, and maintain public confidence in the banking system. (DICGC)
3. **Reimburses insured deposits when a bank fails**
   - In case of liquidation/winding-up of an insured bank, DICGC pays the insured amount through the prescribed claim process. (DICGC)
4. **Provides insurance in bank reconstruction/amalgamation**
   - It pays the insured amount where an eligible scheme of **compromise, arrangement, reconstruction or amalgamation** of an insured bank provides for such payment. (DICGC)
5. **Provides protection when RBI imposes restrictions on a bank**
   - Following the 2021 amendment, DICGC can make payments to eligible depositors of banks placed under **All-Inclusive Directions (AID)** where withdrawal restrictions apply, within the statutory framework. (DICGC)
6. **Registers banks for deposit insurance**
   - Eligible banks are required to be registered under the deposit-insurance scheme; participation is **compulsory** for covered banks. (DICGC)
7. **Collects insurance premiums from insured banks**
   - Insured banks pay premiums to DICGC to maintain the deposit-insurance fund. DICGC administers the premium and insurance framework. (DICGC)
8. **Maintains the Deposit Insurance Fund**
   - The premiums collected form an important source of the Corporation's deposit-insurance resources, which are used to meet eligible claims.
9. **Promotes financial stability**
   - By assuring depositors that their eligible deposits are protected up to the prescribed limit, DICGC helps maintain **confidence and stability in the banking system**. (DICGC)

Deposit Insurance Limit

At present, DICGC insurance covers **up to ₹5 lakh per depositor per bank**, including **principal plus interest**, for deposits held in the **same right and same capacity**. (DICGC)

Important correction for examinations

Although the name contains **"Credit Guarantee"**, **deposit insurance is now the principal function of DICGC**. The credit-guarantee schemes historically administered by the Corporation were discontinued in **April 2003** because no credit institution was participating in them. (DICGC)

⭐ **One-line examination answer**

DICGC's main function is to provide deposit insurance to depositors of insured banks, reimburse eligible insured deposits when an insured bank fails or undergoes specified resolution processes, and thereby protect depositors and promote confidence and financial stability.

Labels / Types of ATM

If by **"labels of ATM"** you mean the **different types or classifications of Automated Teller Machines (ATMs)** used in banking, they can be classified as follows:

1. On-site ATM

An ATM installed **within or at the premises of a bank branch**.

Example: ATM located outside a bank branch.

2. Off-site ATM

An ATM installed **away from the bank's branch premises**, such as at:

- Shopping malls
- Airports
- Railway stations
- Markets
- Petrol stations

3. White Label ATM (WLA)

An ATM **owned and operated by a non-bank entity**, rather than by a particular bank.

- The ATM does not prominently carry the branding of a sponsoring bank.
- Customers of different banks can generally use it.
- In India, WLAs operate under RBI's regulatory framework.

4. Brown Label ATM

An ATM where:

- The **hardware and ATM infrastructure** are provided/maintained by a service provider.
- The **bank** is responsible for cash management and other banking functions.

The ATM generally carries the branding of the sponsoring bank.

5. Green Label ATM

An ATM primarily associated with **agricultural transactions**, particularly services related to agricultural banking.

6. Orange Label ATM

An ATM traditionally associated with **share-market/brokerage-related transactions**.

7. Yellow Label ATM

An ATM associated with **e-commerce transactions**, particularly in the terminology used in older banking-examination classifications.

8. Pink Label ATM

ATMs specifically intended or branded for **women customers**, often associated with enhanced security or women-focused services.

9. Biometric ATM

An ATM that uses **biometric authentication**, such as fingerprint authentication, in addition to or instead of conventional card/PIN authentication.

10. Talking ATM
An ATM equipped with **audio guidance**, helping visually impaired or other customers perform transactions.

Quick Revision Table

Type of ATM	Main feature
On-site ATM	Located at bank premises
Off-site ATM	Located away from bank premises
White Label ATM	Operated by non-bank entity
Brown Label ATM	Infrastructure outsourced; bank manages key banking functions
Green Label ATM	Agricultural transactions
Orange Label ATM	Share-market transactions
Yellow Label ATM	E-commerce transactions
Pink Label ATM	Women-focused ATM
Biometric ATM	Biometric authentication
Talking ATM	Audio assistance

⭐ **Most important for banking exams**
Remember:
White = Non-bank operator
Brown = Outsourced infrastructure/service provider
Green = Agriculture
Orange = Share market
Yellow = E-commerce
Pink = Women
Note: The colour-label classifications (Green, Orange, Yellow, Pink) are largely **traditional banking-examination terminology** and are not as significant in current ATM regulatory classification as **on-site/off-site, white-label and brown-label ATMs**.

Safe Window for Interbank Financial Transactions
A **Safe Window** in inter-bank financial transactions refers to a **time period during which banks can settle or process inter-bank transactions with reduced settlement/operational risk**, depending on the payment or settlement system.
However, if this is a **banking-examination question**, it is important not to confuse **"Safe Window"** with the specific operating hours of RBI payment systems.

In India

Different inter-bank payment systems have different operating arrangements:

System	Nature of transaction	Operating arrangement
RTGS	High-value inter-bank transfers	Available **24×7×365**
NEFT	Retail electronic fund transfers	Available **24×7×365**
Call Money Market	Very short-term inter-bank borrowing/lending	Operates during prescribed market hours
Clearing House	Clearing and settlement between banks	According to the applicable clearing schedule
Forex Market	Inter-bank foreign-exchange transactions	According to market timings

MSF and SDF in Banking

Both **MSF** and **SDF** are important **liquidity-management facilities of the Reserve Bank of India (RBI)**. They operate at opposite ends of the liquidity corridor.

1. MSF – Marginal Standing Facility

MSF stands for **Marginal Standing Facility**.

It is a facility under which **eligible banks can borrow overnight funds from RBI** against eligible securities, subject to the applicable conditions.

Purpose:

To provide banks with a **last-resort overnight source of liquidity** when they face a shortage of funds.

Key points:

- Borrowing facility for eligible banks.
- **Overnight** facility.
- Banks pay the **MSF rate** to RBI.
- Normally the MSF rate is **above the repo rate**.
- It acts as an upper bound of the RBI's interest-rate corridor under the operating framework.

Memory trick:

MSF = Bank needs Money → RBI Supplies Funds

2. SDF – Standing Deposit Facility

SDF stands for **Standing Deposit Facility**.

It enables eligible banks to **deposit/park surplus funds with RBI** without providing collateral to RBI.

Purpose:

To help RBI **absorb surplus liquidity** from the banking system.

Key points:

- Banks **deposit funds with RBI**.
- RBI pays the **SDF rate**.
- It does **not require collateral** from RBI.
- It generally forms the **floor of the interest-rate corridor**.

Memory trick:

SDF = Bank has Surplus funds → RBI Receives Funds

MSF vs SDF

Basis	**MSF**	**SDF**
Full form	Marginal Standing Facility	Standing Deposit Facility
Direction of funds	**RBI → Bank**	**Bank → RBI**
Purpose	Provides liquidity	Absorbs liquidity
Bank's position	Shortage of funds	Surplus of funds
Duration	Overnight	Overnight
Collateral	**Eligible collateral required**	**No collateral required**
Rate	MSF rate	SDF rate
Interest-rate corridor	Generally **upper bound**	Generally **lower bound**

Easy way to remember
MSF → Money Shortage Facility *(memory aid, not the official expansion)*
➡️ Bank **borrows from RBI**
SDF → Surplus Deposit Facility *(memory aid)*
➡️ Bank **deposits with RBI**
⭐ **One-line examination answers**
MSF: A facility through which eligible banks borrow overnight funds from RBI against eligible securities.
SDF: A facility through which eligible banks park surplus funds with RBI **without collateral**.
Most important distinction:
MSF = RBI lends to banks.
SDF = RBI accepts deposits from banks.
NDTL in Banking
NDTL stands for **Net Demand and Time Liabilities**.
It is an important banking concept used by the **Reserve Bank of India (RBI)**, particularly for determining requirements such as **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)**.

Meaning
NDTL broadly represents a bank's **net liabilities to its customers and certain other entities in the form of demand and time deposits**, after making prescribed adjustments for inter-bank liabilities and assets.

1. Demand Liabilities
These are liabilities that are **payable on demand**.
Examples:

- Current account deposits
- Savings deposits payable on demand
- Demand drafts
- Unclaimed deposits
- Certain other demand liabilities

2. Time Liabilities
These are liabilities that become payable **after a specified period**.
Examples:

- Fixed/term deposits
- Recurring deposits
- Time deposits
- Certain other deposits with a specified maturity

3. Netting of Inter-Bank Items
The word **"Net"** is important.
Certain eligible **inter-bank assets/liabilities** are adjusted according to RBI's prescribed methodology to arrive at NDTL.
NDTL and CRR
Banks are required to maintain a prescribed percentage of their NDTL as **CRR with RBI**.

The above visualization is not applicable to NDTL; NDTL itself is not a compound-interest calculation.
NDTL and SLR
NDTL is also used as the reference base for determining a bank's **SLR requirement**.
Simple example
Suppose, for illustration:

- Demand liabilities = ₹400 crore
- Time liabilities = ₹600 crore
- Eligible net inter-bank adjustment = ₹50 crore

Then:
NDTL = ₹400 crore + ₹600 crore − ₹50 crore = ₹950 crore
If the applicable CRR were 3%, the CRR requirement would be:
₹950 crore × 3% = ₹28.5 crore
⭐ **Exam definition**
NDTL (Net Demand and Time Liabilities) is the net amount of a bank's demand and time liabilities, calculated according to RBI's prescribed methodology, and forms the basis for determining certain reserve requirements such as CRR and SLR.
Remember:
NDTL = Demand Liabilities + Time Liabilities − prescribed adjustments.
Answer: Repo Rate
The **Repo Rate (Repurchase Rate)** is the rate at which the **Reserve Bank of India (RBI) lends money to commercial banks**, generally against eligible securities, to meet their short-term liquidity/fund requirements.
Exam answer:
Repo Rate is the rate at which RBI lends short-term funds to commercial banks in case of a shortage/shortfall of funds.
Remember:

- **Repo Rate → RBI lends to banks**
- **Reverse Repo → RBI absorbs funds from banks**
- **MSF → Banks obtain overnight funds from RBI under the Marginal Standing Facility**

Module A: GENERAL BANKING
Chapter 9: Overview of Financial Market
9.1 Objectives
9.2 Introduction
9.3 Banking Sector
9.4 Insurance Market
9.5 Pension Market

The **Indian financial markets** are the system through which households, companies, banks, governments, and investors raise, invest, lend, borrow, and trade money and financial securities.
A useful way to understand them is through five major segments:

1. **Capital market** — includes the **equity/share market** and corporate debt market. Companies raise capital through IPOs and other issues in the primary market; existing securities subsequently trade in the secondary market. India's principal exchanges include NSE and BSE, both recognized by SEBI. (Securities and Exchange Board of India) Major benchmark indices are the **Nifty 50** and **Sensex**.
2. **Money market** — deals mainly with short-term funds, generally up to one year. Instruments include Treasury Bills, Commercial Paper, Certificates of Deposit, call/notice money and repos. The Reserve Bank of India plays the central role in monetary policy and banking-system liquidity.
3. **Government securities/debt market** — the Central and State governments borrow through securities such as Treasury Bills and dated government securities (G-Secs). Interest rates and bond yields in this market are closely connected to RBI monetary policy.
4. **Foreign-exchange market** — facilitates conversion and trading of the Indian rupee against currencies such as the US dollar, euro, pound and yen. RBI regulates the broader foreign-exchange framework and can intervene in currency markets.
5. **Derivatives and commodity markets** — futures and options allow participants to hedge or take positions on equities, indices, currencies, interest rates and commodities. SEBI lists NSE and BSE as permitted to operate several derivative segments, alongside commodity exchanges such as MCX and NCDEX. (Securities and Exchange Board of India)

The two especially important regulators are **SEBI**, which regulates securities markets and focuses on investor protection and market development, and **RBI**, which oversees monetary policy, banking and important parts of the money, government-securities and foreign-exchange markets.
India's markets have expanded considerably. NSE-related disclosures state that India was the **fourth-largest equity market globally by March 2026**, and unique stock-market investors exceeded **139 million**. (Securities and Exchange Board of India) NSE Indices also reported more than **435 Nifty-branded indices** as of June 30, 2026. (NSE India)
For studying the topic, a good sequence is **financial system → money market → capital market → primary & secondary markets → NSE/BSE → SEBI → RBI → instruments → mutual funds/FPI → derivatives → recent reforms and developments**. I can also give you **exam notes on Indian Financial Markets**, including definitions, structure, functions, participants and regulators.

Connection between the Banking Sector and Financial Market

The **banking sector and financial market are closely interconnected**. Banks are not only financial intermediaries but also **major participants in money, capital, foreign-exchange and government-securities markets**.

1. Banks mobilize savings

Banks accept deposits from the public—such as savings accounts, current accounts and fixed deposits.

Public savings → Banks → Loans & Investments → Economic activity

Thus, banks collect surplus funds from savers and make them available to borrowers.

2. Banks participate in the money market

Banks are the **major participants in the money market**, where short-term funds are borrowed and lent.

Banks deal in instruments such as:

- Call/notice money
- Repo and reverse repo
- Treasury Bills
- Commercial Paper
- Certificates of Deposit
- Commercial bills

The **RBI** uses money-market operations to influence liquidity and short-term interest rates.

3. Banks invest in financial securities

Banks invest part of their funds in:

- Government securities
- Treasury Bills
- Corporate bonds and other permitted debt securities
- Other approved financial instruments

Therefore, banks connect depositors' funds with the securities market.

4. Banks provide credit to businesses

Companies depend heavily on banks for:

- Working capital
- Term loans
- Project finance
- MSME finance
- Housing loans
- Export finance
- Trade finance

At the same time, large companies can raise money directly through the **capital market** by issuing shares and bonds.

Therefore:

Bank finance + Capital-market finance → Business investment → Economic growth

5. Banks and the capital market

Banks are connected with the capital market in several ways. They may:

- Provide loans to investors and businesses
- Act as intermediaries for securities-related transactions
- Provide investment-banking/merchant-banking services through permitted subsidiaries or entities
- Participate in government and corporate bond markets
- Provide demat and investment-related services through associated entities

- Facilitate IPO and other issue-related payments and collections

6. Banks participate in the foreign-exchange market

Banks are major intermediaries in the **foreign-exchange (forex) market**.

They provide:

- Currency conversion
- Import and export payments
- Foreign remittances
- Foreign-exchange hedging
- Trade-related foreign currency finance

For example, an Indian importer needing US dollars may obtain them through an authorized dealer bank.

7. Banks transmit RBI monetary policy

This is one of the **most important connections**.

When the RBI changes policy rates or liquidity conditions, banks are affected. Banks may then change their lending and deposit rates.

For example:

RBI policy rate/liquidity change → Bank funding costs → Bank lending rates → Borrowing & investment → Economic activity

Thus, banks act as an important **transmission channel for monetary policy**.

8. Banks create liquidity

Banks transform:

Short-term deposits → Loans and investments

This maturity transformation allows businesses and individuals to obtain funds even though depositors may want relatively quick access to their money.

Consequently, banks contribute to the overall liquidity and functioning of the financial system.

9. Banks facilitate payment and settlement

Banks provide the infrastructure through which financial-market transactions are settled.

They facilitate:

- NEFT
- RTGS
- IMPS
- UPI
- Cheque clearing
- Electronic fund transfers
- Securities-related payments

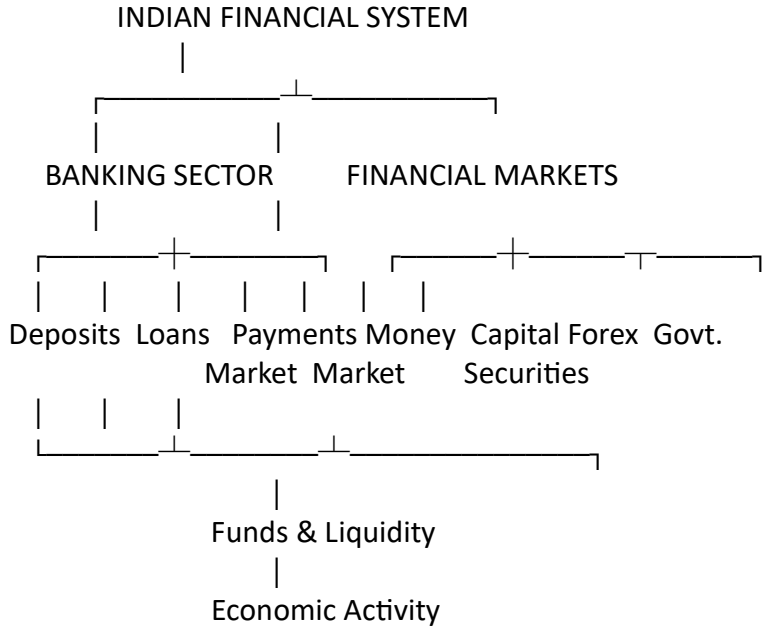
Thus, financial markets depend on banking infrastructure for movement of money.

10. Banks and government borrowing

Banks are important investors in **Government Securities (G-Secs)**.

When the government borrows through the financial market, banks can invest in these securities. Government securities also form an important part of banks' investment portfolios and liquidity-management operations.

Simple diagram



In one sentence

Banks connect the public's savings with the financial markets and the economy by mobilizing deposits, providing credit, investing in securities, participating in money and foreign-exchange markets, facilitating payments, and transmitting monetary policy.

Key relationship for examination

Banking sector	**Financial market**
Accepts deposits	Provides investment opportunities
Provides loans	Provides sources of finance
Participates in money market	Provides short-term funds
Invests in G-Secs	Government raises funds
Deals in foreign exchange	Facilitates international transactions
Provides payment services	Facilitates settlement
Transmits RBI policy	Determines/affects interest rates, liquidity and asset prices

Therefore, the banking sector is both a participant in and an intermediary within the Indian financial market.

Insurance Market in India

The **insurance market** is a component of the Indian financial system where individuals, businesses and other organizations **transfer financial risks to insurance companies in exchange for premiums**.
In simple terms:
Insurance = Payment of a premium in return for financial protection against specified risks.

1. Meaning of Insurance Market
The insurance market is the marketplace in which:

- **Policyholders** purchase insurance protection.
- **Insurance companies** assume specified risks.
- **Agents, brokers and intermediaries** connect customers with insurers.
- **Regulators** supervise the insurance industry.
- **Reinsurers** provide insurance to insurance companies themselves.

The fundamental principle is **risk pooling**: premiums collected from many policyholders are pooled so that losses suffered by a smaller number of insured persons can be compensated.

2. Main Types of Insurance Market
The Indian insurance market can broadly be divided into:
A. Life Insurance Market
Life insurance provides financial protection against risks relating to human life.
Major products include:

- Term insurance
- Whole-life insurance
- Endowment policies
- Money-back policies
- ULIPs
- Annuity/pension products
- Group life insurance

B. General/Non-Life Insurance Market
This covers risks other than human life.
Important categories include:

- Motor insurance
- Health insurance
- Fire insurance
- Marine insurance
- Travel insurance
- Property insurance
- Engineering insurance
- Liability insurance
- Crop insurance
- Commercial insurance

3. Participants in the Insurance Market

Participant	Role
Policyholder/Insured	Purchases insurance protection
Insurance company/Insurer	Accepts and manages risk
IRDAI	Regulates and supervises insurance business
Insurance agent	Distributes insurance products
Insurance broker	Advises customers and arranges insurance
Corporate agents	Distribute insurance products
TPAs	Facilitate certain health-insurance services and claims administration
Reinsurers	Provide risk protection to insurers
Surveyors/loss assessors	Assess certain insurance losses
Policyholders' beneficiaries/nominees	Receive applicable benefits

4. Role of IRDAI

The **Insurance Regulatory and Development Authority of India (IRDAI)** is the principal regulator of India's insurance sector.

Its broad objectives include:

- Regulating insurance companies
- Protecting policyholders
- Promoting orderly growth of insurance
- Supervising insurers and intermediaries
- Regulating insurance products and market conduct
- Monitoring solvency and financial soundness
- Promoting fair treatment of policyholders

5. How the Insurance Market Works

The basic process is:

Customer → Pays premium → Insurance company → Pools and manages premiums → Insured event occurs → Claim made → Claim assessed → Valid claim paid

Example

Suppose a person purchases motor insurance for ₹20,000 per year.

If the insured vehicle suffers a covered loss, the policyholder can make a claim according to the terms and conditions of the policy.

The insurer pays the eligible claim, subject to the policy provisions, deductibles and exclusions.

6. Importance of the Insurance Market

1. Risk protection

Insurance protects individuals and businesses from potentially large financial losses.

2. Mobilization of savings

Life insurance, in particular, can mobilize substantial long-term funds.

3. Capital formation

Insurance companies invest collected funds in permitted financial assets, thereby contributing to capital formation.

4. Economic development

Insurance supports businesses by protecting assets, employees, projects and commercial activities.

5. Financial security

Life and health insurance can provide financial security to individuals and families.

6. Credit support

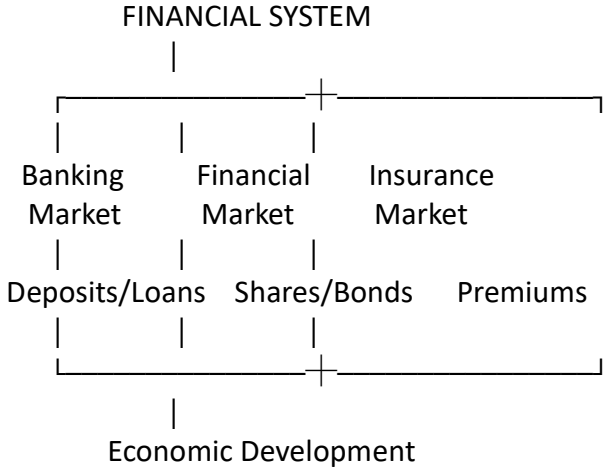
Insurance can facilitate lending because lenders may require appropriate insurance protection for financed assets or risks.

7. Employment generation

The insurance industry generates employment through insurers, agents, brokers, surveyors, technology companies and other service providers.

7. Insurance Market and Financial Market

Insurance is closely connected with the broader **financial market**.



Insurance companies collect premiums and invest their funds in various permitted financial instruments. Therefore, the insurance market is both a **risk-transfer mechanism** and an important **institutional investor** in financial markets.

8. Insurance Market vs Banking Market

Basis	**Banking Market**	**Insurance Market**
Main purpose	Deposit and credit intermediation	Risk protection and risk transfer
Main customer payment	Deposit	Premium
Main obligation	Repay deposits/extend credit	Pay eligible claims/benefits
Main risk	Credit, liquidity, market risk	Underwriting, market and other risks
Major products	Deposits, loans, advances	Life, health, motor, property, etc.
Main regulator	RBI	IRDAI
Investment role	Banks invest their funds	Insurers invest premiums/funds
Economic function	Financial intermediation	Risk pooling and protection

9. Key Terms to Remember

- **Premium** – amount paid for insurance coverage.

- **Policy** – insurance contract/document.
- **Insurer** – insurance company.
- **Insured** – person or entity whose risk is covered.
- **Policyholder** – person/entity holding the policy.
- **Sum insured** – specified amount of coverage in applicable policies.
- **Claim** – request for payment under an insurance policy.
- **Nominee** – person designated to receive applicable policy proceeds, particularly in life insurance.
- **Underwriting** – assessment and acceptance of insurance risk.
- **Reinsurance** – insurance purchased by an insurer from another insurer/reinsurer.
- **Deductible** – portion of a covered loss borne by the insured under the policy.
- **Exclusion** – risk/event specifically not covered by the policy.

Exam definition

The insurance market is a financial market in which insurance companies, policyholders and intermediaries interact for the transfer, pooling and management of risks through insurance contracts in return for premiums.

Pension Market in India

The **pension market** is an important component of the Indian financial system. It deals with the **accumulation, investment and payment of retirement savings** to provide individuals with income or financial security after retirement.

In simple terms:

Pension market = A system through which people accumulate money during their working life and receive retirement benefits later.

1. Main Functions of the Pension Market

The pension market performs several important functions:

1. **Retirement income** – provides financial support after retirement.
2. **Long-term savings** – encourages systematic and long-term saving.
3. **Investment of savings** – pension funds invest accumulated contributions in permitted financial assets.
4. **Capital formation** – pension savings can provide long-term funds to financial markets.
5. **Financial security** – reduces dependence on family members after retirement.
6. **Economic development** – long-term institutional funds can support investment and infrastructure.

2. Pension Market in India

The Indian pension system broadly includes:

A. Government/Social Security Pension Schemes

These include various government-supported pension and social-security arrangements for eligible sections of the population.

B. Employer-Based Pension Schemes

Employers may provide retirement benefits through arrangements such as:

- Employees' Provident Fund (EPF)
- Superannuation arrangements
- Other employer-sponsored retirement benefits

C. National Pension System (NPS)

The **National Pension System (NPS)** is a major defined-contribution pension system in India.

Under NPS:

Subscriber → Makes contributions → Pension account → Funds invested → Retirement corpus → Retirement benefits

NPS is regulated by the **Pension Fund Regulatory and Development Authority (PFRDA)**.

D. Atal Pension Yojana (APY)

The **Atal Pension Yojana** is designed primarily to provide pension coverage to eligible individuals, particularly those in the unorganized sector.

3. Major Participants

Participant	Role
PFRDA	Regulates and develops India's pension sector
Subscriber	Contributes money to a pension account
Employer	May contribute under employer-sponsored schemes
Central/State Government	Provides/finances certain pension arrangements
Pension funds	Manage and invest pension contributions
Annuity service providers	Provide annuity/pension products where applicable
Central Recordkeeping Agencies (CRAs)	Maintain pension-related records and accounts
Trustees/intermediaries	Perform specified administrative and fiduciary functions

4. PFRDA

The **Pension Fund Regulatory and Development Authority (PFRDA)** is the principal regulator of the pension sector in India.

Its functions broadly include:

- Regulating pension schemes under its jurisdiction
- Protecting subscribers' interests
- Regulating pension intermediaries
- Promoting the orderly development of the pension sector
- Establishing standards for pension funds and intermediaries
- Monitoring and supervising regulated entities

5. How the Pension Market Works

Consider an employee who contributes ₹5,000 every month to a pension scheme.

Employee
↓
Regular Contribution
↓
Pension Account
↓
Pension Fund
↓
Investment in permitted assets
↓
Accumulation of Retirement Corpus
↓
Retirement
↓
Pension/Annuity/Withdrawal benefits

The money accumulated is generally invested according to the rules of the particular pension scheme.

6. Pension Market and Financial Markets

The pension market has a **strong relationship with financial markets**.

Pension funds are long-term institutional investors. Their accumulated funds may be invested, subject to applicable regulations and scheme choices, in assets such as:

- Government securities
- Corporate debt
- Equity
- Other permitted securities

Therefore:

Pension contributions → Pension funds → Financial-market investments → Long-term capital → Economic development

This makes pension funds an important source of **long-term investment capital**.

7. Pension Market vs Insurance Market

There is considerable overlap between pensions and insurance, especially because **annuities** can provide regular income during retirement.

Pension Market	Insurance Market
Primarily focuses on retirement savings/income	Primarily focuses on risk protection
Contributions accumulate toward retirement	Premiums are paid for insurance protection
Long-term retirement investment	Risk pooling and risk transfer
PFRDA regulates pension activities within its jurisdiction	IRDAI regulates insurance
Pension funds manage retirement assets	Insurers manage insurance funds
Retirement income is a major objective	Protection against specified risks is the major objective

8. Importance to the Indian Economy

The pension market is important because it:

Promotes savings

Encourages people to save during their working years.

Provides long-term funds

Pension funds can invest for long periods, making them important institutional investors.

Supports capital markets

Investment by pension funds can provide stable long-term demand for government and corporate securities.

Reduces old-age financial dependency

Individuals can build retirement resources rather than relying entirely on family or government support.

Supports financial inclusion

Schemes such as APY seek to extend pension coverage to wider sections of society.

9. Important Pension Terms

- **Pension** – regular income/benefit provided after retirement or on fulfilment of specified conditions.
- **Pension fund** – fund that manages retirement contributions and investments.
- **Subscriber** – person enrolled in a pension scheme.
- **Contribution** – amount paid into a pension account.
- **Corpus** – accumulated retirement savings.
- **Annuity** – financial arrangement that provides periodic payments, usually for a specified period or life, according to its terms.
- **NPS** – National Pension System.
- **APY** – Atal Pension Yojana.
- **PFRDA** – Pension Fund Regulatory and Development Authority.
- **CRA** – Central Recordkeeping Agency.
- **PRAN** – Permanent Retirement Account Number used for NPS accounts.

Exam definition

The pension market is a segment of the financial system that facilitates retirement savings, investment and the provision of retirement income through pension schemes, funds and related intermediaries.

Easy way to remember the three markets

Banking market → Deposits + Loans

Insurance market → Risk protection

Pension market → Retirement savings + Retirement income

Pension Market – Regulatory Framework in India

The **pension market regulatory framework** in India is the system of laws, regulators, rules, institutions and safeguards that govern **pension schemes, pension funds, intermediaries, contributions, investments and retirement benefits**.

The framework is designed mainly to ensure **subscriber protection, financial security, transparency, proper management of pension funds and orderly development of the pension sector**.

1. Principal Regulator – PFRDA

The central regulator is the **Pension Fund Regulatory and Development Authority (PFRDA)**.
PFRDA regulates and develops the pension sector under the **PFRDA Act, 2013**.

Major objectives of PFRDA

- Protect the interests of pension subscribers
- Regulate pension schemes and pension funds under its jurisdiction
- Regulate pension intermediaries
- Promote orderly growth of the pension sector
- Establish standards for pension funds and intermediaries
- Monitor and supervise regulated entities
- Promote transparency and good governance

2. Major Legislation

PFRDA Act, 2013

The **PFRDA Act, 2013** provides the statutory framework for regulation and development of India's pension sector.
It gives PFRDA powers relating to:

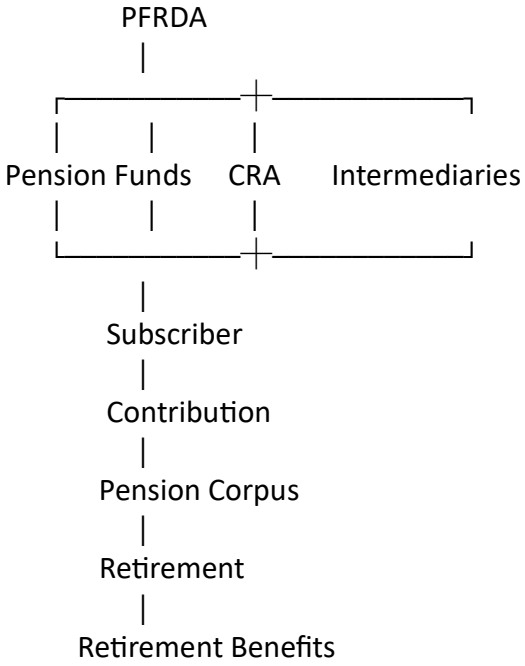
- Regulation of pension schemes
- Registration and regulation of intermediaries
- Regulation of pension funds
- Protection of subscribers
- Investment-related standards
- Inspection and supervision
- Grievance redressal
- Enforcement and penalties

3. National Pension System (NPS)

The **National Pension System (NPS)** is one of the principal pension arrangements regulated by PFRDA.
The framework covers:

- NPS subscribers
- Pension funds
- Central Recordkeeping Agencies
- Points of Presence
- Trustee arrangements
- Annuity service providers
- Other authorized intermediaries

Basic structure



4. Regulation of Pension Funds

Pension funds are responsible for **managing and investing pension contributions**.

The regulatory framework governs matters such as:

- Investment of pension assets
- Permitted asset classes
- Risk management
- Disclosure requirements
- Valuation
- Governance
- Reporting
- Performance-related information
- Protection of subscriber assets

Pension funds cannot simply invest pension money in any asset they choose; investments must comply with the applicable regulatory and scheme framework.

5. Regulation of Pension Intermediaries

The pension system involves several intermediaries.

Important categories include:

1. Pension Funds

Manage and invest pension assets.

2. Central Recordkeeping Agencies (CRAs)

Maintain subscriber records and pension-account information.

3. Points of Presence (PoPs)

Provide specified NPS services and facilitate subscriber transactions.

4. Trustee Bank

Provides specified banking and fund-settlement functions.

5. Annuity Service Providers
Provide annuity products/services where applicable at retirement.
6. Other intermediaries
Other entities may perform functions prescribed under the pension regulatory framework.
PFRDA establishes eligibility, registration, operational and compliance requirements for regulated intermediaries.

6. Investment Regulation
A crucial part of pension regulation is controlling **how pension money is invested**.
The regulatory framework seeks to balance:
Safety + Return + Diversification + Long-term growth
Depending on the scheme and investment choice, pension assets can be invested in permitted categories such as:

- Equity
- Corporate debt
- Government securities
- Other permitted investments

Investment limits and conditions are prescribed under applicable regulations and guidelines.

7. Subscriber Protection
One of the most important objectives of the pension regulatory framework is **protection of subscribers**.
Measures include:

- Disclosure of relevant information
- Transparency in charges and transactions
- Proper maintenance of subscriber records
- Regulation of intermediaries
- Investment norms
- Grievance-redressal mechanisms
- Monitoring of pension funds
- Regulatory supervision
- Protection of pension assets

8. Grievance Redressal
Pension subscribers can raise complaints relating to matters such as:

- Account opening
- Contributions
- Transactions
- Withdrawal
- Incorrect information
- Service deficiencies
- Intermediary conduct
- Delays in processing

The pension framework provides mechanisms for **lodging, tracking and resolving grievances**, with escalation arrangements where required.

9. Inspection and Supervision

PFRDA has supervisory powers over entities regulated by it.
It can undertake activities such as:

- Inspection
- Investigation
- Monitoring
- Calling for information
- Examination of records
- Regulatory directions
- Enforcement action for violations

This helps ensure that pension intermediaries comply with regulatory requirements.

10. Regulation of Atal Pension Yojana (APY)

Atal Pension Yojana (APY) is another important component of India's pension system.
It is aimed particularly at providing pension coverage to eligible individuals, especially those in the unorganised sector.
The regulatory and administrative framework involves **PFRDA**, banks and other participating institutions, along with the Government of India.

11. Role of RBI in the Pension Framework

Although **PFRDA is the principal pension-sector regulator**, the **Reserve Bank of India (RBI)** also has an important role where banks participate as pension intermediaries.
For example, banks can act as:

- Points of Presence
- APY service providers
- Payment and collection channels
- Banking intermediaries associated with pension transactions

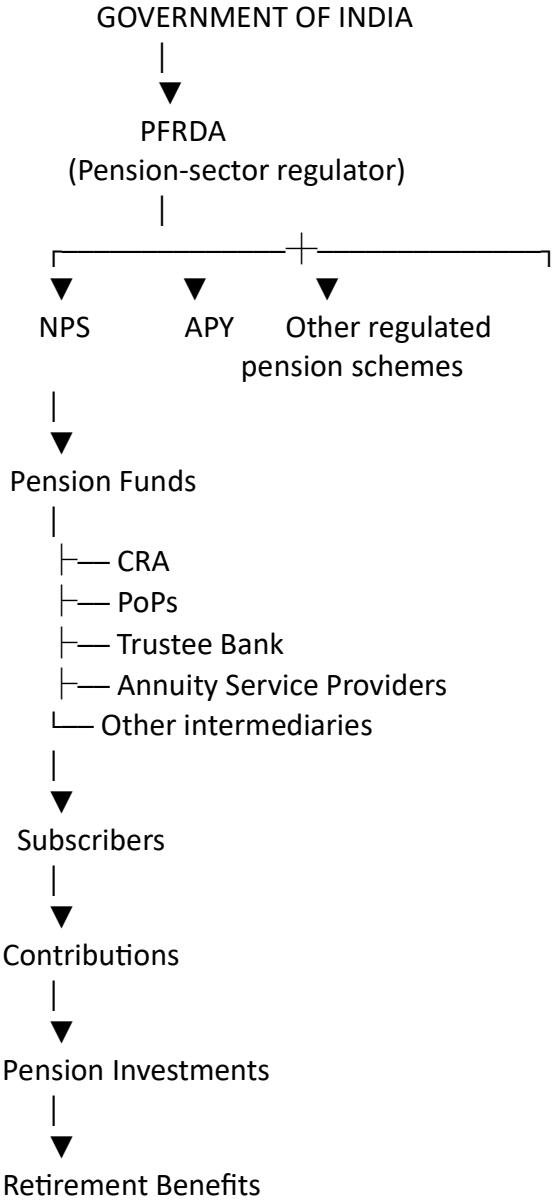
Thus:
PFRDA → Pension regulation
RBI → Regulation/supervision of banks and banking activities

12. Role of Government

The Central Government has an important role in the pension system through:

- Pension policy
- Legislation
- Government pension arrangements
- Notifications and rules
- Fiscal support for specified schemes
- Policy decisions concerning retirement and social security

13. Regulatory Framework – Overall Structure



14. Key Principles of Pension Regulation

The Indian pension regulatory framework is based broadly on these principles:

1. Subscriber protection

The interests of pension subscribers must be protected.

2. Transparency

Subscribers should receive appropriate information about their accounts, investments, charges and benefits.

3. Accountability

Pension funds and intermediaries are subject to regulatory oversight.

4. Prudent investment

Pension assets must be invested according to prescribed investment norms.

5. Diversification

Investment rules seek to avoid excessive concentration of pension assets.

6. Good governance
Pension institutions must maintain appropriate governance and risk-management systems.
7. Financial sustainability
The system should support adequate retirement resources over the long term.
8. Grievance redressal
Subscribers should have accessible mechanisms for resolving complaints.

15. Important Laws, Institutions and Terms

Item	Significance
PFRDA	Principal pension regulator
PFRDA Act, 2013	Statutory basis for PFRDA and pension regulation
NPS	Major defined-contribution pension system
APY	Government-backed pension scheme for eligible subscribers
Pension Funds	Manage pension investments
CRA	Maintains pension-account records
PoP	Provides specified subscriber-facing NPS services
Trustee Bank	Performs specified fund-management/settlement functions
Annuity Service Provider	Provides annuity services/products where applicable
Subscriber	Pension-scheme participant
PRAN	Permanent Retirement Account Number for NPS

Exam-ready conclusion
The pension market regulatory framework in India is primarily governed by PFRDA under the PFRDA Act, 2013. It regulates pension schemes, pension funds and intermediaries, prescribes investment and governance standards, protects subscribers, provides grievance-redressal mechanisms and promotes the orderly development of the pension sector.
Memory formula:
PFRDA + PFRDA Act, 2013 + NPS + APY + Pension Funds + Intermediaries + Investment Rules + Subscriber Protection + Grievance Redressal = Pension Market Regulatory Framework.

Module A: GENERAL BANKING
Chapter 10: Recent Developments in Digital Domain
10.1 Central Bank Digital Currency (CBDC)
10.2 Accounts and Payments Aggregators
10.3 Jan Samarth Portal
10.4 Open Network for Digital Commerce (ONDC)

Digital Banking

Digital banking refers to the delivery of banking products and services through **digital/electronic channels**, allowing customers to perform banking activities without having to visit a physical bank branch for every transaction.

In simple words:

Digital banking means conducting banking activities electronically through the internet, mobile devices, cards, ATMs and other digital channels.

1. Main Features of Digital Banking

1. Anytime and anywhere banking

Customers can access many banking services **24 hours a day, 7 days a week**, subject to service availability.

2. Paperless transactions

Many services can be performed electronically without physical forms or cheques.

3. Faster transactions

Digital channels enable rapid transfer of money and instant access to account information.

4. Self-service

Customers can independently perform many activities through:

- Mobile banking apps
- Internet banking
- ATMs
- Debit/credit cards
- Digital payment applications

5. Real-time information

Customers can generally view:

- Account balance
- Transaction history
- Payments
- Fund transfers
- Statements
- Alerts

2. Major Digital Banking Services

A. Internet Banking

Banking services provided through a bank's website.

Customers can:

- Check balances
- Download statements

- Transfer funds
- Pay bills
- Manage beneficiaries
- Request certain banking services

B. Mobile Banking

Banking through smartphones and mobile applications.

Services include:

- Balance enquiry
- Fund transfer
- Bill payment
- UPI payments
- Deposit-related services
- Card management
- Loan-related services

C. ATM Banking

ATMs allow customers to perform services such as:

- Cash withdrawal
- Cash/cheque deposit at enabled machines
- Balance enquiry
- Mini statement
- PIN services
- Other permitted services

D. Digital Payments

Banks facilitate various electronic payment methods, including:

- UPI
- NEFT
- RTGS
- IMPS
- Debit cards
- Credit cards
- QR-code payments
- Electronic bill payments

3. Digital Banking in India

India has developed a broad digital-payment ecosystem.

Important institutions and systems include:

- **RBI** – banking and payment-system regulation
- **NPCI** – operates important retail payment systems such as UPI, IMPS and RuPay
- Banks – provide accounts and banking/payment services
- Fintech companies – provide technology-based financial services and interfaces

Example: UPI

A simplified UPI transaction can be represented as:

Customer → UPI app → Payment system → Customer's bank → Beneficiary's bank → Beneficiary

This enables customers to make account-to-account payments using digital identifiers such as UPI IDs or QR codes.

4. Digital Banking vs Traditional Banking

Traditional Banking	Digital Banking
Greater dependence on physical branches	Greater dependence on electronic channels
Paper-based processes are common	Electronic processes
Face-to-face interaction	Self-service/digital interaction
Limited by branch working hours for many services	Many services available 24×7
Physical forms may be required	Online authentication/e-forms
Cash and cheque-oriented	Electronic-payment oriented
Higher physical infrastructure requirement	Greater use of technology infrastructure

Important: Digital banking does **not** mean that physical branches have become completely unnecessary. Banks continue to provide branch-based services alongside digital channels.

5. Advantages of Digital Banking

For customers

- Convenience
- Faster transactions
- 24×7 access to many services
- Reduced need to visit branches
- Easy account monitoring
- Quick payments and transfers
- Electronic records
- Greater accessibility

For banks

- Lower cost for many routine transactions
- Improved operational efficiency
- Wider customer reach
- Faster processing
- Better data and transaction monitoring
- Ability to offer personalized services
- Reduced dependence on physical infrastructure for routine services

For the economy

Digital banking contributes to:

- Financial inclusion
- Digital payments
- Formalization of economic activity
- Faster circulation of money
- Reduced transaction costs
- Greater access to financial services

6. Risks and Challenges

Digital banking also creates new risks.

1. Cybersecurity risk

Hackers may attempt unauthorized access to accounts or systems.

2. Phishing
Fraudsters may impersonate banks or other organizations to obtain confidential information.
3. Identity theft
Personal or financial information may be misused.
4. Digital fraud
Examples include:

- Fake banking websites
- OTP scams
- UPI/payment fraud
- Remote-access scams
- SIM-related fraud

5. Privacy concerns
Large quantities of customer data are processed digitally.
6. Technology failure
Network, server or application failures can temporarily disrupt banking services.
7. Digital divide
Customers without adequate access to smartphones, internet connectivity or digital literacy may face difficulties.

7. Security Measures in Digital Banking
Customers should:

- Never disclose **OTP, PIN, CVV or passwords**
- Use official banking applications/websites
- Avoid clicking suspicious links
- Use strong and unique passwords
- Enable appropriate security/transaction alerts
- Keep mobile and banking applications updated
- Report unauthorized transactions immediately to the bank
- Avoid conducting sensitive transactions on insecure public networks

Banks use measures such as:

- Multi-factor authentication
- Encryption
- Transaction monitoring
- Fraud detection
- Device and behavioural monitoring
- Access controls
- Security alerts

8. Digital Banking and Financial Inclusion
Digital banking can bring financial services to people who live far from traditional branches.
For example:
Mobile phone + Bank account + Digital payment system → Access to banking services
This can help expand:

- Savings
- Payments
- Remittances

- Credit access
- Government benefit transfers
- Insurance and pension access

9. Digital Banking vs Digital Payment

These terms should **not be treated as exactly the same**.

Digital payment is primarily the electronic transfer of money.

Digital banking is broader and includes:

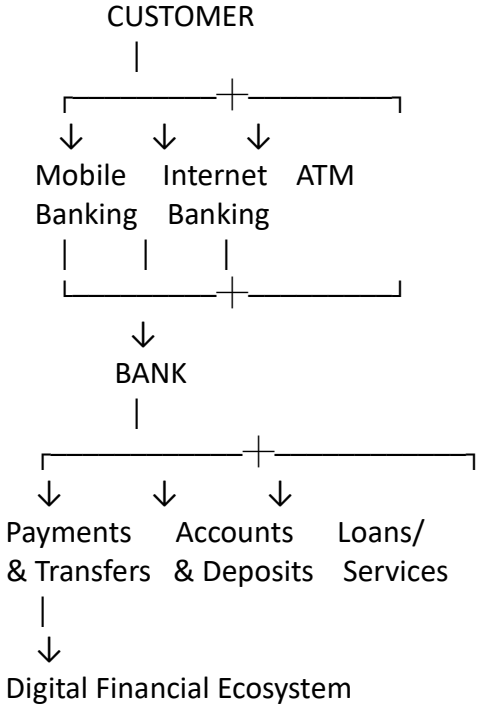
Account access + deposits + payments + fund transfers + cards + statements + service requests + other banking services delivered digitally.

Thus:

Digital payment ⊂ Digital banking

in the broader conceptual sense.

10. Digital Banking – Simple Flow



11. Important Digital Banking Terms

Term	Meaning
Internet Banking	Banking through the internet
Mobile Banking	Banking through mobile devices/apps
UPI	Unified Payments Interface
NEFT	National Electronic Funds Transfer
RTGS	Real Time Gross Settlement
IMPS	Immediate Payment Service
ATM	Automated Teller Machine
QR Code	Machine-readable code used for digital payments
OTP	One-Time Password
MFA/2FA	Multi-factor/two-factor authentication
Fintech	Technology-based financial services
Cybersecurity	Protection of digital systems and information

Exam-ready definition

Digital banking is the provision of banking products and services through electronic and digital channels such as internet banking, mobile banking, ATMs, cards and digital payment systems, enabling customers to access and perform banking transactions electronically.

In one line

Traditional banking = branch-centered banking; Digital banking = technology-enabled banking.

Central Bank Digital Currency (CBDC)

Central Bank Digital Currency (CBDC) is a **digital form of a country's official currency issued by its central bank**.
In India, the CBDC is called the **Digital Rupee (e₹)** and is issued by the **Reserve Bank of India (RBI)**.
CBDC = Digital money issued and backed by the central bank.

1. What is CBDC?

Traditional currency exists mainly as:

- **Physical currency** → notes and coins
- **Bank deposits** → money held in commercial bank accounts

CBDC is different because it is a **digital liability of the central bank**.
A simplified comparison:
Cash: Central-bank money in physical form
CBDC: Central-bank money in digital form
Bank deposit: Commercial-bank money/liability

2. India's CBDC – Digital Rupee

India's CBDC is known as the **Digital Rupee (e₹)**.
The RBI introduced CBDC pilots in different use cases, including:
Retail CBDC – e₹-R
Designed for use by:

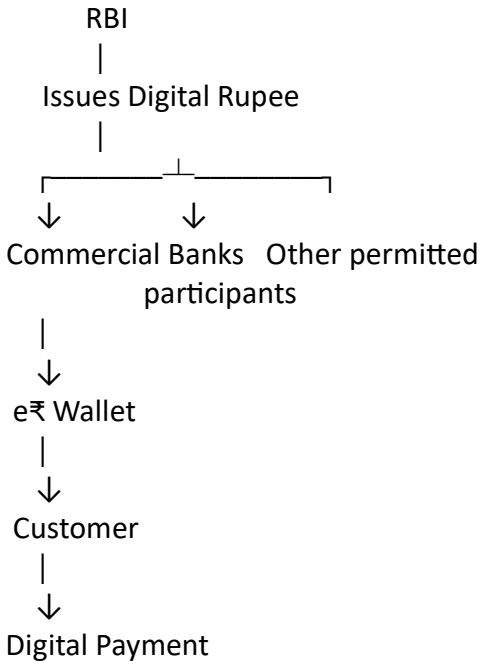
- Individuals
- Consumers
- Merchants

It can be used for digital payments through participating banks and wallets.
Wholesale CBDC – e₹-W
Designed primarily for institutional and financial-market use.
It can be used for purposes such as:

- Settlement of transactions involving government securities
- Interbank transactions
- Other wholesale financial-market applications

3. How CBDC Works

A simplified structure is:



The RBI is the **issuer of the CBDC**, while participating banks and other authorized entities can provide customer-facing services according to the applicable framework.

4. CBDC vs Cryptocurrency

CBDC and cryptocurrency are **not the same**.

CBDC	Cryptocurrency
Issued by a central bank	Generally not issued by a central bank
Official sovereign currency	Usually privately created/decentralized
Central-bank liability	Does not represent a central-bank liability
Value is denominated in national currency	Market value may fluctuate substantially
Regulated within the country's legal framework	Regulatory treatment varies by jurisdiction
Digital Rupee is India's CBDC	Bitcoin is an example of cryptocurrency

5. CBDC vs Bank Deposit

This distinction is very important.

CBDC	Bank Deposit
Liability of the central bank	Liability of a commercial bank
Digital central-bank money	Commercial-bank money
Issued by RBI in India's case	Created/held through commercial banks
Digital equivalent of central-bank currency in the relevant sense	Deposit claim against bank
Can be held/transacted through CBDC arrangements	Used through ordinary bank-account channels

6. CBDC vs UPI

CBDC and UPI are also different.

UPI

UPI is primarily a **payment system/interface** that enables bank-account-to-bank-account payments.

CBDC

CBDC is **digital central-bank money**.

Therefore:

UPI = payment infrastructure/interface

CBDC = form of digital money

For example, a UPI payment can transfer funds between commercial-bank accounts, whereas an e₹ transaction involves Digital Rupee as the underlying form of money.

7. Advantages of CBDC

1. Digital form of sovereign currency

CBDC provides a digital representation of central-bank money.

2. Efficient payments

It can facilitate fast digital transactions.

3. Reduced dependence on physical cash

Digital currency can provide another means of making payments.

4. Financial innovation

CBDC can support innovative payment and financial-market applications.

5. Programmability

Depending on the design and permitted use cases, CBDC can potentially support **programmable payments**, such as restricting how or when funds can be used.

6. Cross-border potential

CBDC may eventually facilitate improvements in certain cross-border payment arrangements, subject to international cooperation and regulatory frameworks.

7. Wholesale financial-market settlement

Wholesale CBDC can potentially improve the efficiency of settlement in financial markets.

8. Challenges of CBDC

CBDC also raises important issues.

A. Privacy

Digital transactions can generate transaction information, requiring appropriate privacy and data-protection safeguards.

B. Cybersecurity

CBDC infrastructure must be protected against:

- Hacking
- Fraud
- Unauthorized access
- System attacks

C. Bank disintermediation

If people shift substantial amounts of money from bank deposits into CBDC, it could potentially affect commercial banks' funding structures.

D. Technology risks
System failures, connectivity issues and infrastructure problems can affect availability.
E. Digital literacy
Some users may find digital currency systems difficult to understand or use.
F. Regulatory challenges
CBDC raises questions concerning:

- Monetary policy
- Banking stability
- Privacy
- Cybersecurity
- Consumer protection
- Cross-border transactions

9. CBDC and the Banking Sector
CBDC does **not necessarily eliminate commercial banks**.
Banks can remain important participants by providing:

- CBDC wallets/customer interfaces
- Customer onboarding
- Payment services
- Distribution channels
- Technology infrastructure
- Other permitted CBDC services

Thus:
RBI → Issues CBDC
Banks/authorized participants → Distribute/provide access and services
Customers → Use Digital Rupee

10. CBDC and Financial Markets
CBDC has an important relationship with the **financial market**.
Particularly in wholesale applications, CBDC can be used to explore more efficient settlement of financial transactions.
For example:
Wholesale CBDC → Securities transaction → Payment settlement
This can potentially reduce settlement friction and improve efficiency.

11. Types of CBDC
CBDCs are generally classified into:
1. Retail CBDC
For:

- Individuals
- Businesses
- Merchants
- Everyday payments

2. Wholesale CBDC
For:

- Banks
- Financial institutions
- Institutional participants
- Financial-market transactions

India's Digital Rupee framework has both **retail (e₹-R)** and **wholesale (e₹-W)** components.

12. CBDC – Simple Comparison

Feature	**Cash**	**Bank Deposit**	**CBDC**
Physical	Yes	No	No
Digital	No	Yes	Yes
Issuer	Central bank	Commercial bank	Central bank
Central-bank liability	Yes	No	Yes
Used for payments	Yes	Yes	Yes
Requires digital infrastructure	No	Yes	Yes

13. Importance of CBDC for India

CBDC is significant because it combines the concept of **central-bank money** with **digital technology**.
It can potentially contribute to:

- Digital payment innovation
- Efficient settlement
- Reduced reliance on physical cash
- Financial-market modernization
- New forms of programmable payments
- Greater efficiency in certain payment and settlement processes

Exam-ready definition

Central Bank Digital Currency (CBDC) is a digital form of sovereign currency issued by a country's central bank and represents a direct liability of the central bank. In India, the CBDC is known as the Digital Rupee (e₹), issued by the Reserve Bank of India.

Remember this distinction

CBDC → Digital money
UPI → Payment system
Bank deposit → Commercial-bank money
Cryptocurrency → Privately issued/decentralized digital asset (depending on the particular cryptocurrency)

Accounts and Payments Aggregators in India

Account Aggregators (AAs) and **Payment Aggregators (PAs)** are two different types of entities in India's digital financial ecosystem.

The easiest way to remember them is:

Account Aggregator = facilitates consent-based sharing of financial information.

Payment Aggregator = facilitates payments between customers and merchants.

They serve different purposes and are regulated under different frameworks.

1. Account Aggregator (AA)

An **Account Aggregator** is an entity that facilitates the **retrieval and sharing of a customer's financial information between financial institutions, based on the customer's explicit consent**.

The Account Aggregator framework is regulated by the **Reserve Bank of India (RBI)**.

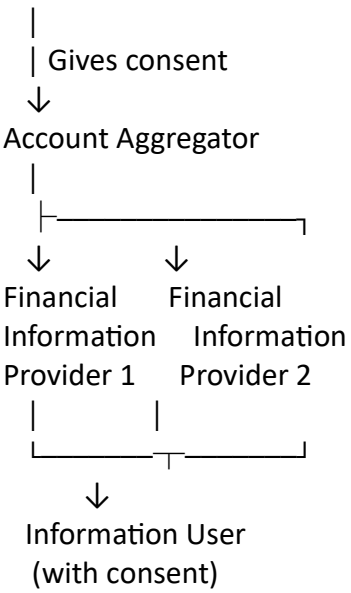
Simple example

Suppose you have:

- Savings account with Bank A
- Mutual fund investment with another institution
- Insurance policy with an insurer

You apply for a loan and want the lender to verify your financial information.

Instead of manually submitting documents, an Account Aggregator can facilitate the sharing of relevant financial information **with your consent**.



2. Important Features of Account Aggregators

A. Consent-based

The customer must provide consent for sharing the relevant information.

B. Customer-controlled

The customer can control which information is shared and for what purpose, subject to the applicable framework.

C. Data sharing—not data selling

An AA's core role is to facilitate the **consent-based transfer of financial information**. It is not intended to become a marketplace for selling customer financial data.

D. No need for repeated physical documents

It can reduce the need for customers to repeatedly provide physical statements and documents.

E. Financial information is standardized electronically

The AA ecosystem facilitates standardized, digitally enabled information sharing between participating entities.

3. Participants in the Account Aggregator Ecosystem

Important participants include:

1. Customer

The individual or entity whose financial information is being shared.

2. Financial Information Provider (FIP)

The institution that holds the customer's financial information.

Examples can include:

- Banks
- NBFCs
- Insurance companies
- Mutual funds
- Pension-related entities
- Other entities covered under the applicable framework

3. Account Aggregator

Facilitates consent-based transfer of financial information.

4. Financial Information User (FIU)

The entity that receives financial information with the customer's consent for a permitted purpose.

For example, a lender may use consented financial information to assess a loan application.

4. Benefits of Account Aggregators

For customers

- Greater control over financial information
- Faster loan applications
- Reduced paperwork
- Easier sharing of financial records
- Greater convenience

For financial institutions

- Better access to authenticated financial information
- Faster credit assessment
- Reduced paperwork
- Potentially lower processing costs
- Improved customer experience

For the financial system

The AA framework can support **open, consent-based and interoperable financial-data sharing**.

5. Payment Aggregator (PA)

A **Payment Aggregator** is an entity that facilitates payments from customers to merchants by accepting payments through various payment methods and transferring the funds to the merchant, subject to the applicable regulatory framework.

Payment Aggregators can facilitate payments through methods such as:

- Cards
- Net banking
- UPI
- Other permitted electronic payment methods

Simple example

You purchase a product from an online merchant.

Customer
  |
  | Payment
  ↓
Payment Aggregator
  |
  | Payment processing
  ↓
Merchant

The PA acts as an intermediary between the **customer and merchant** in the payment process.

6. Types of Payment Aggregators

Payment Aggregators can broadly be understood as:

A. Payment Aggregators – Physical/Offline

Facilitate payments in physical/offline merchant environments.

B. Payment Aggregators – Online

Facilitate online payments, such as payments made on e-commerce websites and applications.

The exact regulatory requirements depend on the type of PA and applicable RBI rules.

7. Payment Aggregator vs Payment Gateway

These terms are often confused.

Payment Aggregator

A PA generally **handles/accepts payments on behalf of merchants** and is subject to RBI's regulatory framework.

Payment Gateway

A payment gateway primarily provides the **technology/infrastructure that securely facilitates communication of payment information** between relevant parties.

Easy distinction

Payment Aggregator = facilitates collection/handling of merchant payments.
Payment Gateway = provides payment-processing technology/interface.

8. Account Aggregator vs Payment Aggregator

Basis	Account Aggregator	Payment Aggregator
Main function	Financial-data sharing	Payment facilitation
Main activity	Transfers financial information with consent	Facilitates customer-to-merchant payments
Customer consent	Central feature	Payment authorization is required, but function is different
Main participants	FIP, AA, FIU, customer	Customer, merchant, PA, banks/payment systems
Purpose	Financial-data access and sharing	Payment collection and settlement
Example use	Sharing bank data for loan assessment	Paying an online merchant
Primary RBI framework	Account Aggregator framework	Payment Aggregator framework

9. Account Aggregator vs Bank

An **Account Aggregator is not a bank**.

A bank:

- Accepts deposits
- Provides loans
- Provides payment services
- Creates/holds bank deposits

An AA primarily facilitates **consent-based financial information sharing**.

10. Payment Aggregator vs Bank

A **Payment Aggregator is also not necessarily a bank**.

A PA facilitates payments for merchants under the applicable regulatory framework.

A bank can itself provide payment services, but a PA performs a specialized payment-intermediation function.

11. Importance in Digital Banking

Both AAs and PAs are important parts of India's **digital financial ecosystem**.

Account Aggregator

Financial data → Consent → Secure data sharing → Better financial services

Payment Aggregator

Customer → Digital payment → Payment Aggregator/payment ecosystem → Merchant

Together they support:

- Digital banking
- Fintech
- Digital lending
- E-commerce
- Faster financial services
- Reduced paperwork
- Financial-data portability
- Digital payments

12. Security and Consumer Protection

Both ecosystems require strong safeguards.

Important concerns include:

- Data security
- Customer authentication
- Consent management
- Cybersecurity
- Fraud prevention
- Grievance redressal
- Transparency
- Protection of customer information

For AAs, **customer consent and control over financial information** are particularly important.

For PAs, **secure payment processing, merchant funds and customer protection** are particularly important.

13. Exam-ready Definitions

Account Aggregator

An Account Aggregator is an RBI-regulated entity that facilitates the consent-based sharing and transfer of financial information between financial information providers and financial information users through a secure digital framework.

Payment Aggregator

A Payment Aggregator is an entity that facilitates customer payments to merchants by accepting and processing payments through permitted payment methods and enabling settlement of funds to merchants in accordance with the applicable regulatory framework.

Easy memory trick

AA → Accounts → Access to financial data

PA → Payments → Payment to merchants

So, **Account Aggregators deal primarily with financial information, whereas Payment Aggregators deal primarily with payments.**

https://www.jansamarth.in/login

Jan Samarth Portal

The **Jan Samarth Portal** is a **Government of India digital platform** that provides a single-window interface for citizens and businesses to **discover and apply for credit-linked government schemes**.
It was launched in **June 2022** as part of the Government's efforts to make credit-linked government schemes more accessible through a digital platform.

Simple definition

Jan Samarth Portal is a one-stop digital platform that connects beneficiaries seeking loans/credit-linked benefits with participating lending institutions and government schemes.

1. Main Objective

The portal aims to make it easier for eligible beneficiaries to:

- Find suitable government credit schemes
- Check their eligibility
- Apply online
- Submit required information/documents
- Track the application
- Connect with participating lenders

Thus, it helps reduce the difficulty of identifying the **right government scheme and lender**.

2. How Jan Samarth Works

The basic process is:

Citizen / Business
↓
Jan Samarth Portal
↓
Answer eligibility questions
↓
Eligible schemes identified
↓
Select suitable scheme
↓
Online application
↓
Participating lender
↓
Loan appraisal
↓
Sanction / Disbursement

The important point is that **the portal facilitates access and application; the participating lending institution makes the credit decision according to applicable rules and its lending process.**

3. Major Features

A. Scheme discovery

Users can find government schemes relevant to their circumstances rather than searching for each scheme separately.

B. Eligibility checking

The portal uses information provided by the applicant to identify schemes for which the applicant may be eligible.

C. Online application

Applicants can submit applications digitally for eligible schemes.

D. Digital documentation

The platform seeks to reduce physical paperwork by enabling digital submission and verification processes where supported.

E. Lender connectivity

Applications can be routed to participating banks and other eligible lending institutions.

F. Application tracking

Applicants can track the status of their applications through the digital system.

4. Types of Beneficiaries

Jan Samarth is relevant to different categories of borrowers, including:

- Students
- Farmers
- Entrepreneurs
- MSMEs
- Self-employed persons
- Business owners
- Other eligible beneficiaries under participating government schemes

The actual eligibility depends on the **specific scheme**.

5. Types of Schemes

The portal brings together credit-linked schemes across broad areas such as:

Education

Education-related credit schemes for eligible students.

Agriculture

Credit-related schemes for eligible farmers and agricultural activities.

Business and livelihood

Schemes supporting:

- Entrepreneurs
- MSMEs
- Self-employment
- Business expansion
- Livelihood activities

Other priority sectors

Other government credit-linked schemes may also be made available through the portal.

6. Jan Samarth and Banks

Jan Samarth has an important connection with the **banking sector**.

Government Schemes
↓
Jan Samarth Portal
↓
Eligible Applicant
↓
Participating Bank/Lender
↓
Credit Appraisal
↓
Loan Sanction
↓
Disbursement

Banks therefore remain responsible for important lending functions such as:

- Credit appraisal
- KYC
- Verification
- Risk assessment
- Sanction
- Documentation
- Disbursement
- Recovery

The portal **does not replace the bank's credit appraisal function**.

7. Importance of Jan Samarth for Financial Inclusion

The portal supports **financial inclusion** by making government-supported credit schemes easier to discover and access.

It can help address problems such as:

- Lack of awareness about government schemes
- Difficulty identifying the appropriate scheme
- Multiple application channels
- Excessive paperwork
- Lack of transparency in application tracking

Therefore:

Digital platform + Government schemes + Banks/lenders → Easier access to formal credit

8. Advantages

For citizens

- One platform for multiple schemes
- Easier scheme discovery
- Online eligibility assessment
- Convenient application
- Application tracking

- Reduced paperwork

For banks

- Digital application flow
- Better structured applicant information
- Easier access to scheme-linked applications
- Greater efficiency in processing

For government

- Better implementation of credit-linked schemes
- Greater transparency
- Digital monitoring
- Improved outreach
- Reduced administrative friction

9. Jan Samarth vs Digital Banking

These are different.

Jan Samarth Portal	Digital Banking
Government digital platform	Banking service ecosystem
Focuses on credit-linked government schemes	Provides broad banking services
Helps identify and apply for eligible schemes	Provides deposits, transfers, payments, loans, etc.
Connects applicants with participating lenders	Directly provides banking services through digital channels
Supports government credit schemes	Supports ordinary banking and financial transactions

10. Jan Samarth vs Direct Bank Loan

Jan Samarth	Direct Bank Loan
Helps identify applicable government-linked schemes	Customer approaches bank for a loan
Digital single-window approach	Individual bank's application process
May connect applicant to participating lenders	Bank directly handles application
Scheme eligibility is an important component	Product/credit eligibility is primary
Government scheme benefits may apply	May be a normal commercial loan

11. Importance in the Indian Financial System

Jan Samarth is an example of **Digital Public Infrastructure (DPI) being used to improve access to formal credit**.

It connects three important elements:

Government

↓

Digital Platform

↓

Banks/Lending Institutions

↓

Citizens, farmers, students, entrepreneurs and businesses

This makes Jan Samarth relevant to topics such as:

- Digital banking

- Financial inclusion
- Government-sponsored credit
- Digital lending
- MSME finance
- Agricultural finance
- Entrepreneurship
- Banking technology
- Digital Public Infrastructure

Exam-ready answer

Jan Samarth Portal is a Government of India digital platform launched in June 2022 to provide a single-window mechanism for discovering and applying for credit-linked government schemes. It enables eligible citizens and businesses to check scheme eligibility, apply digitally and connect with participating lending institutions, thereby promoting financial inclusion, transparency and easier access to institutional credit.

Memory formula:

Jan Samarth = Government Schemes + Eligibility Check + Online Application + Lender Connectivity + Credit Access.

Open Network for Digital Commerce (ONDC)

The **Open Network for Digital Commerce (ONDC)** is an Indian **open digital commerce network** designed to make e-commerce more **open, interoperable and inclusive**.

1. Meaning of ONDC

ONDC stands for Open Network for Digital Commerce. It is an initiative of the **Department for Promotion of Industry and Internal Trade (DPIIT), Government of India**, designed to create an **open, interoperable network for digital commerce**. It is infrastructure for digital commerce rather than a conventional e-commerce app or marketplace. (ONDC)

The basic idea is:

Any participating buyer application should be able to discover products/services from participating sellers, even when the buyer and seller use different applications.

Thus, ONDC seeks to move digital commerce from a **platform-centric model** to an **open-network model**.

2. Why was ONDC introduced?

Traditional e-commerce generally works through a **closed platform**:

Buyer → Platform → Seller

The platform controls important parts of the transaction, such as customer acquisition, seller onboarding, search, ordering and often logistics and payments.

ONDC seeks to create:

Buyer App → ONDC Network → Seller App/Seller

This allows different participants to interact through common protocols and standards rather than having to belong to one single platform. ONDC describes this as open digital-commerce infrastructure intended to improve interoperability, reduce fragmentation and increase participation. (ONDC Resources)

3. Main objectives of ONDC

The major objectives are:

1. **Promote interoperability** in digital commerce.
2. **Increase competition** among digital-commerce service providers.
3. **Enable small businesses and MSMEs** to participate in e-commerce.
4. **Digitize local sellers and service providers.**
5. **Increase consumer choice.**
6. **Reduce dependence on individual e-commerce platforms.**
7. **Improve logistics efficiency.**
8. **Encourage innovation** by allowing multiple applications to participate.
9. **Promote inclusive digital commerce.**
10. **Expand access to digital markets** for consumers, small producers and businesses.

4. How ONDC works

ONDC does **not itself function like Amazon or Flipkart as a single marketplace**.

Instead, it provides the network framework through which different participants can interact.

Simple example
Suppose **Ravi owns a small grocery shop**.
Without ONDC
Ravi may have to:

- join individual e-commerce platforms;
- create separate catalogues;
- comply with different systems;
- compete within each platform separately.

With ONDC
Ravi can connect his catalogue to the ONDC Network through a **Seller Network Participant**.
A customer using a participating **Buyer Network Participant** can discover Ravi's products.
The transaction can therefore involve:
Customer
↓
Buyer Application
↓
ONDC Network
↓
Seller Application
↓
Ravi's Shop
↓
Logistics/Delivery
↓
Customer
Seller Network Participants connect sellers to ONDC, digitize catalogues and facilitate payments and other seller-side functions. (ONDC)

5. Important participants in ONDC
A. Buyer Network Participant (BNP)
A **Buyer Network Participant** provides the customer-facing application/interface.
It can:

- allow customers to search;
- display products;
- rank/search results;
- provide catalogue information;
- support shopping carts;
- provide delivery choices;
- facilitate checkout and payment;
- confirm orders.

(ONDC)

B. Seller Network Participant (SNP)

A **Seller Network Participant** connects sellers to the ONDC Network.

Its functions include:

- seller onboarding;
- catalogue digitization;
- making inventory discoverable;
- payment-related functions;
- helping sellers follow e-commerce best practices. (ONDC)
-

C. Gateway

A gateway helps facilitate **discovery and connectivity across the network**, allowing buyer applications to find relevant sellers/services.

D. Technology Service Provider

Technology providers supply the technological infrastructure required by participants.

E. Settlement agencies

They support the **financial settlement and reconciliation** of transactions.

F. Dispute Resolution Providers

They assist in resolving disputes arising within the network.

ONDC's ecosystem includes technology providers, settlement agencies, dispute-resolution providers and other supporting organizations. (ONDC)

6. ONDC's sectors

ONDC has expanded beyond ordinary retail. Its network covers areas including:

- Retail
- Food & Beverages
- Grocery
- Agriculture
- Beauty & Personal Care
- Electronics
- Fashion
- Home & Kitchen
- Logistics
- Mobility
- Public transport
- Tourism
- Financial services
- Investments
- Insurance

(ONDC)

7. ONDC and banking/financial services

ONDC is particularly important for the **financial sector** because its open-network approach is also being applied to financial products.
Its financial-services initiative aims to provide standardized digital interfaces for:

- **Credit**
- **Insurance**
- **Investments**

The objective is to create wider distribution channels and improve access to financial products. (ONDC)
For example:
Customer → Buyer/Financial App → ONDC Network → Financial Provider
This can potentially allow customers to discover financial products from multiple providers through participating interfaces.

8. ONDC and MSMEs

One of ONDC's most important purposes is to help **small businesses enter digital commerce**.
A small seller may otherwise lack:

- technical expertise;
- digital catalogue infrastructure;
- online marketing capability;
- access to large customer bases;
- logistics integration.

ONDC attempts to make participation possible through network participants and standardised digital processes.
This is particularly important for:

- local retailers;
- artisans;
- farmers;
- small manufacturers;
- restaurants;
- service providers;
- micro and small enterprises.

The ONDC strategy specifically identifies making digital commerce **small-business friendly** and accelerating the digitalization of MSMEs and consumers as objectives. (ONDC)

9. ONDC vs traditional e-commerce

Basis	Traditional platform model	ONDC model
Structure	Closed platform	Open network
Buyer	Usually uses platform's app	Can use participating buyer apps
Seller	Joins individual platform	Can connect through seller participants
Interoperability	Limited	Core objective
Competition	Platform-centric	Network-based
Seller reach	Depends on platform	Potentially across participating network
Consumer choice	Platform catalogue	Network-wide discovery
Technology	Platform-specific	Open protocols/specifications
Small-business participation	Can involve platform fees/requirements	Designed to lower digital participation barriers
Governance	Platform sets many rules	Common network policies and agreements

ONDC itself distinguishes its model from traditional platform-centric commerce and publishes common network policies governing participants. (ONDC)

10. Advantages of ONDC

For consumers

- More choice
- Potentially greater price comparison
- Access to local sellers
- Multiple buyer applications
- Greater interoperability
- Potentially better discovery of products and services

For sellers

- Wider digital reach
- Access to multiple buyer applications
- Reduced dependence on one platform
- Easier digital catalogue creation
- Opportunity to reach customers outside the seller's immediate locality

For MSMEs

- Digitalization
- Increased market access
- Lower barriers to entering e-commerce
- Opportunity to compete with larger businesses

For the economy

- Greater competition
- Digital inclusion
- Innovation
- Improved logistics
- Formalization and digitalization of commerce
- Wider participation in the digital economy

11. Limitations and challenges

ONDC also faces practical challenges.

1. Customer experience

Because several independent participants are involved, maintaining a consistently good customer experience can be difficult.

2. Grievance handling

Responsibility may involve different parties—buyer app, seller app, seller, logistics provider, etc.—so clear dispute-resolution mechanisms are important.

3. Quality control

Different sellers may have different standards of:

- product quality;
- packaging;
- delivery;
- customer service.

4. Network coordination

Large-scale interoperability requires common technical standards and effective coordination.

5. Seller digital literacy

Small businesses may require assistance with:

- catalogue management;
- inventory;
- pricing;
- order management;
- digital payments.

6. Competition among participants

An open network does not automatically guarantee that every seller or buyer will receive equal visibility. Search, ranking and commercial practices remain important issues.

12. Regulatory and governance framework

ONDC was initiated by **DPIIT** and is implemented as an open digital-commerce network. ONDC was registered as a **Section 8 company in December 2021**. Its first transaction took place on **29 April 2022**. (ONDC)

Its governance framework includes:

- network agreements;
- network policies;
- participant obligations;
- technical standards;
- operational rules;
- dispute-resolution mechanisms;
- settlement arrangements.

ONDC publishes its policies and governance documents openly for network participants. (ONDC)

13. ONDC and the digital public infrastructure model

ONDC can be understood alongside India's broader **Digital Public Infrastructure (DPI)** approach.

A simplified comparison is:

Aadhaar → Digital Identity

UPI → Digital Payments

ONDC → Digital Commerce

The idea is to create common digital infrastructure upon which multiple private and public participants can build applications and services.

14. ONDC's importance to Indian banking

For banking and financial-services studies, ONDC is important because it represents a movement toward **open, interoperable distribution of financial products**.

For example:

Banks/NBFCs/Insurers/AMCs

↓

ONDC Financial Services Network

↓

Multiple Digital Distribution Channels

↓

Consumers

This can help financial institutions reach customers through additional digital channels while potentially giving consumers greater choice among providers.

ONDC currently identifies **credit, insurance and investments** as financial-services areas. (ONDC)

15. Short exam definition

ONDC (Open Network for Digital Commerce) is a Government of India initiative led by DPIIT that creates an open, interoperable digital-commerce network through common standards and protocols, enabling buyers, sellers, service providers and other participants to interact across different applications rather than being confined to a single e-commerce platform. (ONDC)

In one line:

ONDC = Open digital infrastructure intended to make Indian commerce more interoperable, competitive and inclusive.

Official ONDC website

Module B: FINANCIAL INCLUSION AND ROLE OF BCAs
Chapter 11: Financial Inclusion and Banking for the Unbanked
11.1 Objectives
11.2 Introduction
11.3 What is Financial Inclusion?
11.4 Need for Financial Inclusion
11.5 Present Banking Scenario
11.6 Initiatives of Reserve Bank of India
11.7 Business Correspondent and Business Facilitator Model
11.8 Role of Technology in Financial Inclusion

Financial Inclusion

Financial Inclusion means ensuring that **all individuals and businesses, especially low-income and vulnerable sections of society, have affordable, convenient, and appropriate access to useful financial services** such as bank accounts, savings, credit, insurance, pensions, payments and remittances.

In simple words, **financial inclusion means bringing unbanked and underserved people into the formal financial system**.

Definition

Financial inclusion can be understood as the **process of ensuring access to appropriate financial products and services at an affordable cost, delivered responsibly and sustainably by regulated institutions**.

Characteristic Features of Financial Inclusion

1. **Universal Access**
    - Financial services should be available to everyone, irrespective of income, occupation, location or social status.
2. **Accessibility**
    - Banking and financial services should be easily accessible through branches, ATMs, Business Correspondents, mobile banking, internet banking and digital platforms.
3. **Affordability**
    - Services should be available at a reasonable cost so that poor and low-income customers can use them.
4. **Availability of Basic Bank Accounts**
    - Every individual should have access to a basic account for deposits, withdrawals, payments and other transactions.
5. **Access to Credit**
    - Individuals, farmers, MSMEs and weaker sections should have reasonable access to formal credit and should not be dependent entirely on informal moneylenders.
6. **Savings Facilities**
    - People should have safe and convenient opportunities to save their money through formal financial institutions.
7. **Access to Insurance**
    - Financial inclusion includes affordable insurance against risks such as death, illness, accidents, crop failure and property loss.
8. **Access to Pension Services**

- It provides opportunities for people, particularly workers in the unorganised sector, to build financial security for old age.

9. **Digital Financial Services**
   - Digital payments, mobile banking, UPI, debit cards and other electronic services help expand financial access.
10. **Financial Literacy**
    - People should understand financial products, interest rates, risks, savings, credit, insurance, digital payments and their rights as customers.
11. **Customer Protection**
    - Financial services should be provided transparently and responsibly, with protection against fraud, exploitation and unfair practices.
12. **Inclusiveness of Vulnerable Groups**
    - Special attention is given to **women, rural populations, low-income groups, small farmers, migrant workers, senior citizens and other underserved sections**.
13. **Regular and Convenient Transactions**
    - Inclusion is not merely opening an account. Customers should be able to **actively use** financial services conveniently.
14. **Formal Financial System**
    - It seeks to bring people into regulated institutions such as **banks, cooperative banks, insurance companies, pension institutions and other regulated financial-service providers**.
15. **Geographical Reach**
    - Financial services should reach remote and rural areas as well as urban areas.
16. **Responsible Lending**
    - Credit should be provided according to the customer's repayment capacity, with transparent terms and reasonable pricing.
17. **Economic Empowerment**
    - Financial inclusion helps individuals manage money, build assets, obtain credit, protect themselves against risks and improve their economic opportunities.

In short

Financial Inclusion = Access + Affordability + Availability + Appropriate Use + Financial Literacy + Consumer Protection

Major Components

Component	**Purpose**
Banking	Savings accounts, deposits and payments
Credit	Loans for personal, agricultural and business needs
Insurance	Protection against financial risks
Pension	Financial security after retirement
Payments	Safe and convenient money transfers
Financial Literacy	Understanding financial products and risks
Consumer Protection	Protection from unfair practices and fraud

Key point for exams: Financial inclusion is **not simply opening bank accounts**. It means ensuring that people have **effective, affordable and continuous access to a complete range of appropriate financial services** and are able to use them safely.

Need for Financial Inclusion

Financial inclusion is needed to ensure that every section of society has access to affordable, safe and useful financial services. It promotes economic development, reduces inequality and improves the financial security of individuals and households.

Major Needs/Importance of Financial Inclusion

1. **To provide banking access to all**
    - Brings unbanked and underbanked people into the formal banking system.
    - Ensures that people can save, withdraw and transfer money safely.
2. **To reduce dependence on moneylenders**
    - Provides access to formal and reasonably priced credit.
    - Protects poor households from exploitative interest rates charged by informal lenders.
3. **To encourage savings**
    - Provides safe avenues for people to save their income.
    - Helps households build financial assets and meet future needs.
4. **To provide affordable credit**
    - Makes loans available to farmers, small businesses, MSMEs, students and low-income households.
    - Supports productive activities and self-employment.
5. **To reduce poverty**
    - Access to savings, credit, insurance and pensions helps households improve their financial position.
    - Financial services can help people invest in education, housing, businesses and livelihoods.
6. **To promote economic growth**
    - Mobilizes small savings and channels funds into productive economic activities.
    - Encourages entrepreneurship and investment.
7. **To promote digital payments**
    - Enables people to use convenient payment systems such as mobile banking, cards and digital payment platforms.
    - Reduces dependence on cash.
8. **To facilitate direct transfer of government benefits**
    - Bank accounts enable government subsidies, pensions, scholarships and welfare payments to reach beneficiaries directly.
    - This can reduce leakages and improve transparency.
9. **To provide insurance protection**
    - Poor and vulnerable households are particularly exposed to financial shocks.
    - Affordable insurance helps protect them against accidents, illness, death, crop losses and other risks.
10. **To provide old-age security**
    - Pension and retirement products help people accumulate funds for their later years.
11. **To empower women**
    - Access to bank accounts, savings and credit can increase women's financial independence and participation in economic activities.
12. **To promote rural development**
    - Banking and financial services in rural areas support agriculture, small businesses, self-employment and local economic activity.

13. **To improve financial literacy**
    - Financial inclusion encourages people to understand savings, loans, insurance, pensions, digital payments and financial risks.
14. **To reduce economic inequality**
    - Ensures that poorer and disadvantaged sections can participate in the formal financial system and access economic opportunities.
15. **To improve financial security**
    - People can maintain emergency savings, obtain insurance and access formal credit when unexpected financial needs arise.
16. **To formalize the economy**
    - Greater use of formal banking and digital payments brings more economic transactions into the regulated financial system.
17. **To support entrepreneurship and employment**
    - Access to finance enables individuals and small enterprises to start or expand businesses, thereby creating employment.
18. **To promote balanced development**
    - Extending financial services to remote and underserved areas helps reduce the financial gap between urban and rural populations.

Importance in the Indian Context

In India, financial inclusion is particularly important because of the need to:

- Bring **unbanked and underserved populations** into formal finance.
- Expand banking facilities in **rural and remote areas**.
- Provide affordable credit to **farmers, MSMEs and weaker sections**.
- Ensure efficient delivery of **government welfare benefits**.
- Promote **digital and cashless payments**.
- Increase access to **insurance and pension products**.
- Improve **financial literacy and consumer protection**.

Exam-oriented conclusion

The fundamental need for financial inclusion is to make financial services accessible, affordable, appropriate and safe for all sections of society. It promotes savings, facilitates credit, provides protection against financial risks, supports entrepreneurship, reduces poverty and inequality, and contributes to inclusive economic growth.

Financial Inclusion and Banking for the Unbanked

1. Meaning of Financial Inclusion

Financial inclusion refers to the process of ensuring that **individuals and businesses, particularly low-income and disadvantaged groups, have affordable, convenient and appropriate access to formal financial services**.
These services include:

- Savings and deposit accounts
- Credit and loans
- Insurance
- Pension
- Remittance and money-transfer services
- Payment facilities
- Digital banking
- Financial advice and literacy

The objective is not merely to open a bank account, but to ensure that people can **actually use financial services safely, regularly and affordably**.

2. Who are the Unbanked?

Unbanked people are individuals or households who **do not have access to or do not use a formal bank account**.
They may include:

- Poor and low-income households
- Rural populations
- Agricultural workers and small farmers
- Daily-wage workers
- Migrant workers
- Small traders
- Micro and small entrepreneurs
- People living in remote areas
- Persons with limited financial literacy
- People without adequate documentation or access to banking infrastructure

Unbanked vs Underbanked

Term	Meaning
Unbanked	People who have little or no access to formal banking services
Underbanked	People who have a bank account but make limited use of formal financial services

3. Banking for the Unbanked

Banking for the unbanked means extending basic and useful banking facilities to people who have traditionally remained outside the formal banking system.
The aim is to provide them with:
Account → Savings → Payments → Credit → Insurance → Pension → Financial Security

4. Why Banking for the Unbanked is Necessary

1. To provide safe savings facilities

People can keep their money safely in formal bank accounts rather than keeping cash at home.

2. To provide affordable credit

Formal banking reduces excessive dependence on informal moneylenders.

3. To facilitate government benefits

Bank accounts enable direct transfer of subsidies, pensions, scholarships and other government benefits.

4. To encourage digital payments

People can make and receive payments through cards, mobile banking, UPI and other digital channels.

5. To protect against financial emergencies

Savings, insurance and access to formal credit provide protection during emergencies.

6. To promote entrepreneurship

Access to credit enables individuals and small businesses to start or expand economic activities.

7. To reduce poverty and inequality

Access to financial services improves economic opportunities for disadvantaged groups.

8. To promote financial literacy

Banking relationships expose customers to formal financial products and help them understand how to manage money.

5. Major Methods of Banking the Unbanked in India

A. Basic Savings Bank Deposit Account (BSBDA)

BSBDA provides a basic bank account with facilities such as deposits and withdrawals, subject to applicable regulatory conditions.

It is designed to make banking accessible to people who may not otherwise maintain conventional accounts.

B. Pradhan Mantri Jan-Dhan Yojana (PMJDY)

Pradhan Mantri Jan-Dhan Yojana is a major Government of India financial-inclusion programme.

Its objectives include providing access to:

- Bank accounts
- Savings facilities
- Remittance
- Credit
- Insurance
- Pension
- Financial literacy

It has played an important role in bringing previously unbanked households into the formal banking system.

C. Business Correspondents (BCs)

Banks can use **Business Correspondents** to provide banking services in areas where establishing a full bank branch may not be economical.

A BC can facilitate services such as:

- Account opening
- Cash deposits
- Cash withdrawals
- Remittances

- Payments
- Other permitted banking services

This helps take banking **to the customer's doorstep**.

D. Banking through Micro-ATMs

Micro-ATMs enable Business Correspondents to provide basic banking transactions using authentication mechanisms such as Aadhaar-enabled services, where applicable.
They are particularly useful in areas with limited branch infrastructure.

E. Mobile Banking

Mobile phones allow customers to access banking services without regularly visiting a bank branch.
Examples include:

- Balance enquiry
- Fund transfers
- Bill payments
- Account information
- Digital payments

F. UPI and Digital Payments

The Unified Payments Interface (UPI) has significantly expanded the ability of customers to make instant digital payments using mobile devices.
It can help small merchants, workers and households participate in the formal digital economy.

G. Aadhaar-enabled Banking

Aadhaar-based authentication and related infrastructure can facilitate certain banking and government-benefit transactions, subject to applicable rules and customer consent.

H. Microfinance and Small Loans

Microfinance institutions and banks provide relatively small loans to people who may have limited access to conventional credit.
These can support:

- Small businesses
- Livelihood activities
- Agriculture
- Self-employment
- Women's groups

I. Financial Literacy

Banking the unbanked must be accompanied by **financial education**.
Customers need to understand:

- Interest rates
- Loan repayment
- Savings
- Insurance
- Pension

- Digital-payment safety
- Fraud prevention
- Customer rights and grievance mechanisms

6. Role of Banks in Banking the Unbanked

Banks play a central role by:

1. Opening basic bank accounts.
2. Expanding branches and banking outlets.
3. Appointing Business Correspondents.
4. Providing affordable credit.
5. Offering savings products.
6. Providing insurance and pension products.
7. Promoting digital banking.
8. Conducting financial-literacy programmes.
9. Providing secure payment facilities.
10. Establishing effective grievance-redressal mechanisms.

7. Role of Technology

Technology has made financial inclusion considerably easier.

Traditional model

Customer → Bank Branch → Banking Service

Technology-enabled model

Customer → Mobile/BC/Micro-ATM/Digital Platform → Banking Service

Important technologies include:

- Mobile phones
- Internet banking
- UPI
- Aadhaar-enabled systems
- Micro-ATMs
- Biometric authentication
- QR-code payments
- Digital KYC
- Banking Correspondent networks

8. Challenges in Banking the Unbanked

Despite considerable progress, several challenges remain:

Infrastructure problems

Remote areas may have poor banking and telecommunications infrastructure.

Financial illiteracy

Customers may not understand financial products or digital transactions.

Digital divide

Not everyone has access to smartphones, reliable internet or digital devices.

Cyber fraud

New users may be vulnerable to phishing, OTP fraud, fake apps and other scams.

Irregular income
Low-income customers may find it difficult to maintain regular savings or repay loans.
Documentation and KYC difficulties
Some individuals may face difficulties meeting documentation requirements.
Dormant or inactive accounts
Opening an account does not necessarily mean that the customer actively uses it.
Lack of trust
Some people may prefer informal financial arrangements because of familiarity or previous experiences.

9. Financial Inclusion vs Banking the Unbanked

Financial Inclusion	Banking the Unbanked
Broader concept	Specific aspect of financial inclusion
Covers banking, credit, insurance, pension and payments	Primarily focuses on bringing people without banking access into the formal system
Includes both individuals and businesses	Mainly focuses on previously unbanked individuals/households
Emphasizes access, affordability, usage and protection	Emphasizes access to basic banking facilities
Long-term financial participation	First step towards formal financial participation

10. Financial Inclusion Cycle
Identification of Unbanked People
↓
Opening of Basic Bank Account
↓
Regular Savings and Payments
↓
Access to Credit
↓
Insurance & Pension
↓
Digital Financial Services
↓
Financial Literacy & Consumer Protection
↓
Financial Security and Economic Empowerment

Conclusion
Financial inclusion and banking for the unbanked are essential for inclusive economic development. Banking the unbanked brings people into the formal financial system, while broader financial inclusion ensures that they can **save, borrow, make payments, obtain insurance, build pension security and protect themselves financially**. Thus, the goal should not be **"an account for everyone"**, but **"meaningful and regular access to appropriate financial services for everyone."**
Present Banking Scenario in India

The **Indian banking sector in 2026** is undergoing a major transformation from traditional branch-based banking to a **technology-driven, digitally connected, inclusive and highly regulated financial system**. It combines public-sector banks, private-sector banks, foreign banks, Regional Rural Banks, cooperative banks, Small Finance Banks and Payments Banks. (financialservices.gov.in)

1. Strong and Diversified Banking Structure

India has a broad banking network comprising:

- **Public Sector Banks (PSBs)**
- **Private Sector Banks**
- **Foreign Banks**
- **Regional Rural Banks (RRBs)**
- **Small Finance Banks (SFBs)**
- **Payments Banks**
- **Co-operative Banks**

The banking system is regulated primarily by the **Reserve Bank of India (RBI)**, while different categories of banks are subject to specific regulatory and supervisory frameworks.

2. Expansion of Banking Infrastructure

Banking access has expanded substantially across India.

As of July 2026, India had **more than 1.81 lakh bank branches, 17.36 lakh Business Correspondents and 1.65 lakh India Post Payments Bank centres**. About **99.92% of inhabited villages** were reported to have a banking outlet within 5 km. (pib.gov.in)

This represents a major shift toward **banking for the unbanked and underserved**.

3. Rapid Growth of Financial Inclusion

Financial inclusion has become a major component of India's banking policy.

The **Pradhan Mantri Jan-Dhan Yojana (PMJDY)** has brought millions of previously unbanked people into the formal financial system.

By April 2026, PMJDY accounts had reached approximately **58.16 crore**, with cumulative deposits of about **₹3.02 lakh crore**. (pib.gov.in)

Financial inclusion today goes beyond bank accounts and includes:

Banking + Credit + Insurance + Pension + Digital Payments + Financial Literacy

4. Digital Banking Revolution

Indian banking has moved rapidly toward **digital banking**.

Customers increasingly use:

- Mobile banking
- Internet banking
- UPI
- Debit and credit cards
- QR-code payments
- Digital wallets
- Aadhaar-enabled services
- Digital KYC
- Video KYC
- Automated banking services

The result is that many routine banking transactions can now be completed without visiting a branch.

5. UPI and Digital Payments

The **Unified Payments Interface (UPI)** has become one of the most important components of India's payment ecosystem.

In March 2026, approximately **2,264 crore UPI transactions worth ₹29.53 lakh crore** were processed, with 691 banks live on the platform. (pib.gov.in)

Thus, India has moved from a predominantly cash-based payment environment toward a **real-time digital payment economy**.

6. Growth of Bank Deposits and Credit

Banks continue to perform their traditional role of:

Mobilising Savings → Accepting Deposits → Providing Credit → Supporting Investment and Economic Growth

For example, scheduled commercial banks had aggregate deposits of around **₹265.38 lakh crore** and bank credit of around **₹219.28 lakh crore** as of June 30, 2026. (compliedai.com)

This demonstrates the enormous scale of India's banking intermediation.

7. Increasing Focus on MSME and Priority Sector Lending

Banks are increasingly important sources of finance for:

- Agriculture
- Micro, Small and Medium Enterprises
- Small businesses
- Housing
- Education
- Export activities
- Weaker sections
- Rural development

Priority Sector Lending (PSL) remains an important mechanism for directing institutional credit toward sectors considered important for inclusive economic development.

8. Technology-Based Banking

The modern Indian bank is increasingly becoming a **technology organisation as well as a financial institution**.

Important technologies include:

- Artificial Intelligence
- Machine Learning
- Big Data
- Cloud computing
- Blockchain/DLT
- Biometrics
- APIs
- Automation
- Advanced cybersecurity systems

These technologies are being used for:

- Credit assessment
- Fraud detection

- Customer service
- Risk management
- Personalized banking
- Regulatory compliance
- Cybersecurity

9. Rise of FinTech and Bank–FinTech Collaboration

India has developed a strong **FinTech ecosystem**.

Banks increasingly collaborate with technology companies and digital platforms for:

- Payments
- Lending
- Wealth management
- Insurance distribution
- Account aggregation
- Digital onboarding
- Fraud detection

This has increased competition and encouraged banks to provide faster and more convenient services.

10. Emergence of Open and Interconnected Banking

India's financial system is increasingly based on interoperable digital infrastructure.

Important developments include:

- **UPI**
- **Account Aggregator framework**
- **Central Bank Digital Currency (CBDC/e₹)**
- **Digital Public Infrastructure**
- **Open Network for Digital Commerce (ONDC)**
- **Digital lending platforms**

These developments are creating greater connectivity between banks, customers, businesses and government services.

11. Improved Financial Health of Banks

The Indian banking sector has undergone significant improvements in asset quality, capitalisation and risk management over the past several years.

Banks are now operating under stronger frameworks relating to:

- Capital adequacy
- Asset classification
- Provisioning
- Risk management
- Corporate governance
- Stress testing
- Basel requirements

The RBI continues to strengthen prudential supervision and regulatory standards. (m.rbi.org.in)

12. Greater Attention to NPA and Recovery Management

Non-Performing Assets (NPAs) remain an important concern, although the banking system has made substantial progress in recognizing and managing stressed assets.

Banks use mechanisms such as:

- Recovery proceedings
- Insolvency and Bankruptcy Code (IBC)
- SARFAESI framework
- Debt recovery mechanisms
- Restructuring
- Provisioning
- Asset reconstruction

The objective is to maintain **asset quality and financial stability**.

13. Cybersecurity Has Become Critical

Rapid digitalization has also created new risks.

Major concerns include:

- Phishing
- Identity theft
- OTP fraud
- UPI fraud
- Malware
- Fake banking applications
- Social engineering
- Data breaches
- Digital lending fraud

Therefore, banks and regulators are giving increasing attention to **cybersecurity, customer awareness and fraud prevention**.

14. Stronger Customer Protection

Customer protection is becoming an increasingly important part of banking regulation.

A significant recent development is the **Reserve Bank – Integrated Ombudsman Scheme, 2026**, which came into effect on **July 1, 2026**, replacing the 2021 scheme. It provides a cost-free and relatively speedy mechanism for resolving eligible complaints concerning deficiency in service by covered regulated entities.

15. Emergence of Digital-Only Banking

The concept of banking is moving from:

"Bank Branch" → "Banking Anytime, Anywhere"

Customers increasingly expect:

- 24×7 services
- Instant payments
- Instant account information
- Digital loan applications
- Paperless onboarding
- Online investments
- Mobile-based customer service

Branches continue to remain important, but their role is changing from routine transaction centers to **advisory, relationship and specialized service centers**.

Major Challenges

Despite impressive progress, the Indian banking sector faces several challenges:

1. Cybersecurity

Growing digital transactions increase exposure to cyber fraud.

2. Digital divide

Not everyone has equal access to smartphones, internet connectivity or digital literacy.

3. Financial literacy

Customers need better understanding of loans, insurance, investments and digital risks.

4. Customer service

Banks must improve speed, transparency and grievance redressal.

5. Data privacy

Increasing use of customer data creates privacy and data-governance challenges.

6. Fraud and digital scams

Banks need stronger systems to detect and prevent financial fraud.

7. Credit risk

Rapid expansion of lending must be accompanied by sound underwriting and risk management.

8. Competition

Traditional banks face increasing competition from FinTech companies and digital financial platforms.

Overall Present Scenario

Area	**Present Trend in India**
Banking access	Near-universal village coverage
Financial inclusion	Rapidly expanding
Digital banking	Very high growth
UPI	Dominant digital payment system
Bank deposits	Very large and growing
Bank credit	Strong role in economic activity
FinTech	Rapid development
Technology	AI, cloud, APIs, automation increasingly important
Cybersecurity	Major priority
Customer protection	Strengthening
Rural banking	Expanding through BCs and digital channels
Regulation	Strong RBI supervision
Future direction	Digital, inclusive, data-driven and customer-centric

Conclusion

The **present banking scenario in India can be described as "traditional banking + digital transformation + financial inclusion + strong regulation."**

India has moved from a system primarily focused on **branches and physical transactions** toward an interconnected ecosystem where **banks, FinTechs, digital public infrastructure and payment platforms** work together.

The major objective now is not simply to provide a bank account to every citizen, but to ensure **meaningful use of banking, credit, insurance, pension and digital financial services while maintaining financial stability, cybersecurity and customer protection**.

Initiatives of RBI for the Unbanked

The **Reserve Bank of India (RBI)** has taken several regulatory and developmental initiatives to bring unbanked and underserved people into the formal financial system. Its approach combines **banking access, low-cost accounts, rural outreach, technology, financial literacy and credit availability**.

Major RBI Initiatives

1. Basic Savings Bank Deposit Account (BSBDA)

RBI introduced the **Basic Savings Bank Deposit Account (BSBDA)** to make basic banking services accessible without a minimum-balance requirement.

Important features include:

- No minimum balance requirement.
- Basic deposit and withdrawal facilities.
- Access through branches and ATMs.
- Electronic receipt of money.
- ATM/debit-card facility.
- Basic facilities are provided without charges, subject to applicable rules. (Reserve Bank of India)

Purpose: To enable low-income and previously unbanked people to enter the formal banking system.

2. Business Correspondent (BC) Model

RBI permitted banks to use **Business Correspondents (BCs)** and Business Facilitators to extend banking services beyond traditional branches.

BCs can help with activities such as:

- Account opening
- Deposits and withdrawals
- Remittances
- Loan applications
- Financial awareness
- SHG/JLG promotion
- Other permitted banking services

This is particularly important in **villages and remote areas where establishing a full branch may be costly**. (Reserve Bank of India)

3. Banking in Unbanked Villages

RBI introduced roadmaps for providing banking services in:

- Villages with population **above 2,000**, and subsequently
- Villages with population **below 2,000**.

Services could be provided through:

Bank branches + Business Correspondents + ATMs + Mobile banking outlets and other channels. (Reserve Bank of India)

4. Financial Inclusion Plans (FIPs)

RBI required banks to prepare **Financial Inclusion Plans** with measurable targets for expanding banking access.
These plans have focused on:

- Banking outlets
- BSBDA accounts
- BC networks
- Credit facilities
- Kisan Credit Cards
- General Credit Cards
- ICT-based banking transactions

RBI's 2025 Annual Report shows the substantial expansion of these indicators between 2010 and 2024. (Reserve Bank of India)

5. Use of Technology for Financial Inclusion

RBI has encouraged banks to use **Information and Communication Technology (ICT)** to reach remote customers at lower cost.
Examples include:

- Micro-ATMs
- Mobile banking
- Biometric authentication
- Digital payment systems
- ICT-based BC transactions
- Interoperable banking technology

The objective is to make small-value transactions economically viable even in remote locations. (Reserve Bank of India)

6. Simplified KYC and Small Accounts

RBI has provided mechanisms for **small accounts and simplified KYC requirements** within the applicable regulatory framework.
This helps people who may face difficulty providing extensive documentation to access formal banking.
RBI has also continued to modify KYC processes to reduce inconvenience, including allowing certain KYC-related services to be facilitated through authorized Business Correspondents. (Reserve Bank of India)

7. Financial Literacy

RBI considers **financial literacy** an essential part of financial inclusion.
It has supported:

- Financial Literacy Centers (FLCs)
- Centre for Financial Literacy (CFL) initiatives
- Financial education programmes
- Awareness campaigns
- Financial literacy material
- Programmes for specific groups and rural populations

The CFL project was scaled up to **2,421 centers** by 2024-25. (Reserve Bank of India)

8. National Strategy for Financial Inclusion (NSFI)
RBI has played a central role in developing the **National Strategy for Financial Inclusion**.
The latest **NSFI 2025–30** provides a framework for further deepening financial inclusion in India. (Reserve Bank of India)
Its broad approach is to promote:
Access → Usage → Quality → Financial Literacy → Consumer Protection

9. Priority Sector Lending (PSL)
RBI uses the **Priority Sector Lending framework** to encourage banks to provide credit to important and underserved sectors, including:

- Agriculture
- MSMEs
- Education
- Housing
- Weaker sections
- Other identified priority activities

This helps ensure that financial inclusion involves **credit access**, and not merely opening deposit accounts. RBI reviewed the PSL guidelines as part of its financial-inclusion agenda. (Reserve Bank of India)

10. Kisan Credit Card (KCC)
RBI has supported the banking system's provision of **Kisan Credit Cards** to improve farmers' access to timely institutional credit.
The KCC system helps farmers obtain credit for eligible agricultural and related activities.
RBI's financial-inclusion data show substantial growth in KCC accounts and outstanding amounts over the years. (Reserve Bank of India)

11. General Credit Card (GCC)
The **General Credit Card** framework facilitates credit for certain small borrowers and self-employed persons who may not fit easily into conventional lending arrangements.
It supports RBI's objective of improving access to formal credit.

12. Expanding and Deepening Digital Payments Ecosystem (EDDPE)
RBI has promoted the **Expanding and Deepening of Digital Payments Ecosystem (EDDPE)** Programme.
The objective is to ensure that people in less-served districts have access to at least one digital payment method, such as:

- Debit/RuPay cards
- Mobile banking
- Internet banking
- UPI
- USSD
- Aadhaar Enabled Payment System (AePS)

RBI's 2024-25 agenda included expanding this Programme across districts. (Reserve Bank of India)

13. Financial Inclusion Fund

The **Financial Inclusion Fund (FIF)** supports activities that help create an ecosystem for financial inclusion.
It has supported activities involving:

- Financial literacy
- Financial Literacy Centers
- Training of Business Correspondents
- Financial literacy kiosks
- Technology-based financial inclusion
- Capacity building

The objective is to support infrastructure and activities that make financial inclusion more sustainable. (Reserve Bank of India)

14. Lead Bank Scheme

The **Lead Bank Scheme** is an important institutional mechanism for coordinating banking and development activities at the district level.
It helps bring together:
Banks + Government agencies + Development institutions + Local stakeholders
to improve credit delivery and financial inclusion.
RBI has continued to focus on making the Lead Bank Scheme more effective for financial inclusion. (System Health)

15. Banking for Self-Help Groups

RBI's regulatory framework facilitates banking and credit linkages for **Self-Help Groups (SHGs)**.
Business Correspondents can also facilitate certain banking services for SHGs, subject to applicable regulations. (Reserve Bank of India)
This is particularly useful for promoting **women's financial participation, savings and micro-enterprise**.

RBI's Overall Approach

The RBI's initiatives can be understood under six broad pillars:

Pillar	Major RBI Initiative
Access	BCs, banking outlets, unbanked-village roadmaps
Affordable accounts	BSBDA
Credit	PSL, KCC, GCC, SHG credit
Technology	ICT-BC model, digital payments, AePS
Financial literacy	FLCs, CFLs, awareness programmes
Policy & coordination	NSFI, Financial Inclusion Plans, Lead Bank Scheme

Financial Inclusion Model
Unbanked Person
↓
Basic Bank Account (BSBDA)
↓
BC / Digital Banking Access
↓
Savings + Payments
↓
Formal Credit
↓
Insurance + Pension
↓
Financial Literacy & Consumer Protection
↓
Financial Empowerment
Conclusion
The RBI's strategy for the unbanked has evolved from simply **opening bank accounts** to creating a complete financial ecosystem. Its major initiatives—**BSBDA, Business Correspondents, Financial Inclusion Plans, simplified KYC, digital banking, financial literacy, priority-sector credit, the Lead Bank Scheme and the National Strategy for Financial Inclusion**—seek to ensure that underserved people can **access, use and benefit from formal financial services**. (Reserve Bank of India)

IIBF- BC / BF Notes

Business Correspondent and Business Facilitator Model

The **Business Correspondent (BC) and Business Facilitator (BF) Model** is an important mechanism used by banks in India to **extend banking and financial services to unbanked and underserved areas**, especially rural and remote regions.
The model allows banks to use **individuals or organizations as intermediaries** so that customers can access certain banking services without having to visit a traditional bank branch.

1. Business Facilitator (BF)
A **Business Facilitator** assists the bank in activities related to customer acquisition and credit, but **does not normally handle cash or undertake banking transactions on behalf of the bank**.
Activities of a Business Facilitator
A BF may:

- Identify potential customers.
- Provide information about banking products.
- Promote savings and deposit products.
- Create awareness about loans and other financial services.
- Collect and process preliminary information for loan applications.
- Assist in preparing loan applications.
- Undertake activities relating to financial literacy and awareness.
- Follow up with customers regarding applications and repayment.
- Promote Self-Help Groups (SHGs), Joint Liability Groups (JLGs), etc., as permitted.

Key point:
BF = Facilitates banking business but does not normally conduct banking transactions.

2. Business Correspondent (BC)
A **Business Correspondent** is an agent appointed by a bank to provide specified banking services on behalf of the bank, particularly in locations where establishing a conventional branch may not be economically viable.
BCs can bring banking services **closer to the customer's doorstep**.
Services of a Business Correspondent
Subject to RBI's applicable framework and the bank's authorization, a BC may facilitate:

- Opening of bank accounts.
- Cash deposits.
- Cash withdrawals.
- Small-value remittances.
- Receipt and delivery of payments.
- Collection of loan applications.
- Small-value credit-related transactions.
- Recovery/collection of principal and interest.
- Other permitted banking services.

Technology such as **micro-ATMs, biometric authentication and digital devices** can enable BCs to provide these services.
Key point:
BC = Facilitates banking transactions and specified banking services on behalf of the bank.

3. Difference Between Business Facilitator and Business Correspondent

Basis	Business Facilitator (BF)	Business Correspondent (BC)
Meaning	Facilitates banking business	Provides specified banking services on behalf of bank
Main role	Customer acquisition, awareness and facilitation	Transactional and customer-service functions
Cash handling	Generally **No**	**Yes**, where specifically authorized
Account opening assistance	Can facilitate	Can facilitate/undertake permitted processes
Cash deposit/withdrawal	No	Yes, subject to authorization
Remittance	Generally no transactional role	Can facilitate permitted remittance services
Loan application	Can assist	Can assist
Financial literacy	Important role	May also undertake/support it
Customer interface	Yes	Yes
Technology-based transactions	Limited/non-transactional	Important component
Purpose	Facilitation	Banking service delivery

Easy way to remember
BF → Facilitates
BC → Conducts/Facilitates Banking Services

4. Why the BC/BF Model was Introduced

Traditional branches cannot economically serve every village or remote location. The BC/BF model helps overcome this problem.

Main objectives

1. **Financial inclusion**
   - Bring unbanked people into the formal financial system.
2. **Last-mile banking**
   - Take banking services to customers rather than requiring customers to travel to branches.
3. **Rural banking**
   - Expand banking services in villages and remote areas.
4. **Lower operating costs**
   - Banks can reach customers without establishing a full-fledged branch everywhere.
5. **Access to credit**
   - Help customers connect with formal credit facilities.
6. **Promote savings**
   - Encourage people to save through formal financial institutions.
7. **Digital financial inclusion**
   - Use mobile devices, micro-ATMs and biometric technologies to provide banking services.
8. **Government benefit delivery**
   - Facilitate banking channels through which eligible beneficiaries can receive payments and benefits.

5. Eligible Entities

Under RBI's framework, banks can engage different categories of entities as Business Correspondents, subject to applicable conditions.

These may include certain:

- Individuals
- NGOs
- Microfinance institutions
- Cooperative organizations
- Companies
- Post offices
- Other eligible entities

The exact eligibility and permissible activities are governed by the **RBI framework and the bank's policies**.

6. BC Model – How It Works

Traditional Banking

Customer → Bank Branch → Banking Service

BC Model

Customer → Business Correspondent → Bank

The BC acts as the **last-mile interface**, while the actual banking relationship remains with the bank.

For example:

Customer in a remote village

↓

Visits local BC

↓

Uses micro-ATM/other authorized channel

↓

Identity/authentication is verified

↓

Transaction is processed

↓

Bank's account is updated

7. Technology in the BC Model

Technology is essential to making the BC model practical.

Common technological tools include:

- Micro-ATMs
- Smartphones/tablets
- Biometric authentication
- Aadhaar-enabled payment infrastructure, where applicable
- Mobile connectivity
- Point-of-Sale (PoS) devices
- Digital transaction platforms
- Real-time or near-real-time transaction processing

This enables a small BC outlet to perform functions that would otherwise require a bank branch.

8. Advantages of the BC/BF Model

For customers

- Banking available closer to home.
- Lower travel costs.
- Convenient cash transactions.
- Easier access to financial products.
- Better access to formal credit.
- Increased financial literacy.

For banks

- Wider geographical reach.
- Lower cost of expansion.
- Greater customer acquisition.
- Better rural market penetration.
- Improved financial inclusion.

For the economy

- Mobilization of savings.
- Greater formalization of financial transactions.
- Improved delivery of government benefits.
- Reduced dependence on informal finance.
- Greater participation in the formal economy.

9. Limitations and Challenges

The model also faces several challenges:

- Inadequate digital connectivity in remote areas.
- Cash-management difficulties.
- Low financial literacy.
- Customer awareness issues.
- Cybersecurity and fraud risks.
- BC viability and inadequate income.
- Transaction failures caused by connectivity or technical problems.
- Need for effective supervision and monitoring.
- Customer trust and service-quality issues.

10. BC/BF Model and Financial Inclusion

The BC/BF model is particularly important because **financial inclusion requires physical and digital access to financial services**.

The model connects:

Banks

↕

BCs/BFs

↕

Rural & Underserved Customers

It therefore helps convert the objective of **"banking for all"** into actual **last-mile delivery of financial services**.

Exam-Oriented Answer

The Business Correspondent and Business Facilitator Model is a financial-inclusion mechanism through which banks use authorized intermediaries to extend banking services to customers, particularly in unbanked and underserved areas. A Business Facilitator mainly performs non-transactional activities such as customer awareness, promotion and assistance in loan applications, whereas a Business Correspondent can provide specified banking transactions and services on behalf of the bank, including permitted cash deposits, withdrawals and remittances. The model reduces the cost of banking expansion, improves last-mile connectivity and promotes access to savings, credit, payments and other financial services.

One-line distinction

Business Facilitator = facilitates banking business; Business Correspondent = facilitates specified banking transactions and services on behalf of the bank.

Role of Technology and Digital India in Financial Inclusion

Technology and Digital India have transformed financial inclusion in India by making banking and financial services more accessible, affordable, convenient and available beyond traditional bank branches.

The basic idea is:

Technology → Wider Access → Lower Cost → More Usage → Greater Financial Inclusion

1. Meaning of Digital Financial Inclusion

Digital financial inclusion means using **digital technologies and financial infrastructure** to provide affordable and convenient financial services to people who are unbanked or underserved.

It enables people to access:

- Bank accounts
- Savings
- Credit
- Insurance
- Pension
- Digital payments
- Government benefits
- Remittances

without necessarily visiting a bank branch.

2. Role of Technology in Financial Inclusion

1. Mobile Banking

Mobile phones allow customers to access banking services from almost anywhere.

Customers can:

- Check account balances
- Transfer money
- Pay bills
- Receive payments
- Make digital purchases
- Access banking information

This is particularly useful for people living far from bank branches.

2. UPI and Digital Payments

The **Unified Payments Interface (UPI)** has made instant account-to-account payments possible using mobile applications.

It has helped:

- Small merchants
- Daily-wage workers
- Rural customers
- Small businesses
- Households

participate in the formal digital payment ecosystem.

UPI also enables payments using **QR codes**, reducing the need for expensive payment infrastructure.

3. Aadhaar and Digital Identity

Aadhaar provides a widely used digital identity infrastructure that can support financial inclusion when used within applicable legal and regulatory frameworks.

It can facilitate:

- Customer identification
- e-KYC processes
- Direct benefit transfers
- Aadhaar-enabled payment services

This helps simplify access to formal financial services.

4. Business Correspondent Technology

Technology has made the **Business Correspondent (BC) model** much more effective.

BCs can use:

- Micro-ATMs
- Smartphones
- Biometric devices
- PoS machines
- Mobile connectivity

to provide specified banking services in areas where there is no full-service branch.

Thus:

Bank Branch → BC → Customer's Doorstep

5. Digital KYC and e-KYC

Digital KYC reduces the paperwork and time required for customer onboarding.

It can make opening accounts and accessing financial services:

- Faster
- More convenient
- Less costly

This is particularly useful for customers who face difficulties travelling to bank branches.

6. Direct Benefit Transfer (DBT)
Digital banking infrastructure enables government benefits to be transferred directly into eligible beneficiaries' bank accounts.
This can improve:

- Speed of payment
- Transparency
- Traceability
- Efficiency
- Reduction of leakages

Thus, financial inclusion becomes an important mechanism for delivering government welfare programmes.

7. Micro-ATMs
Micro-ATMs enable BCs to provide certain basic banking transactions outside conventional branches.
They are particularly useful in **rural and remote areas**.

8. Internet Banking
Internet banking allows customers to access financial services without physically visiting a bank.
Services include:

- Fund transfers
- Account statements
- Bill payments
- Deposits
- Loan-related services
- Investment-related services

9. Digital Lending
Technology has enabled lenders to process credit applications digitally.
Data and automated systems can assist in:

- Customer onboarding
- Credit assessment
- Documentation
- Loan processing
- Disbursement
- Repayment

However, digital lending must operate within appropriate **consumer-protection, data-protection and regulatory requirements**.

10. Account Aggregator Framework
The **Account Aggregator (AA)** framework enables individuals, with appropriate consent, to share financial information between participating regulated financial entities through a secure digital architecture.
This can help customers access financial products by making their financial information more portable and usable.
For example:
Customer's financial data → Consent → Account Aggregator → Financial Institution
This has potential to improve access to credit and other financial services.

3. Role of Digital India in Financial Inclusion

Digital India is a Government of India Programme aimed at transforming India into a digitally empowered society and knowledge economy.

Its digital infrastructure supports financial inclusion through:

A. Digital identity

Digital identity infrastructure makes customer identification easier.

B. Digital connectivity

Internet and mobile connectivity allow financial services to reach geographically remote populations.

C. Digital payments

UPI and other payment systems facilitate low-cost and rapid transactions.

D. Digital government services

Government services can increasingly be accessed digitally, including financial-benefit delivery.

E. Digital literacy

Digital literacy programmes help people use online services safely and effectively.

4. India Stack and Financial Inclusion

The broader **India Stack** ecosystem has contributed to digital financial inclusion through interconnected digital infrastructure.

Important components include:

- **Aadhaar**
- **e-KYC**
- **UPI**
- **DigiLocker**
- **Account Aggregator**
- Digital payment infrastructure

Together, these technologies help create a **paper-light, presence-light and cash-light financial ecosystem**.

5. Technology and Different Financial Services

Financial Service	Role of Technology
Savings	Mobile/digital bank accounts
Payments	UPI, cards, mobile payments
Credit	Digital loan applications and data-based assessment
Insurance	Online policy purchase and claims
Pension	Digital registration and contribution systems
Remittances	Instant electronic transfers
Government benefits	DBT into bank accounts
Banking access	BCs, micro-ATMs and mobile banking
Financial information	Internet/mobile banking
Customer service	Chatbots, call centers and digital grievance systems

6. Benefits of Technology for Financial Inclusion

1. Wider geographical reach
Financial services can reach remote villages without establishing a traditional branch everywhere.

2. Lower cost
Digital transactions generally reduce the cost of delivering routine financial services.

3. Convenience
Customers can transact **24×7** through digital channels.

4. Faster transactions
Money can be transferred almost instantly through modern payment systems.

5. Greater transparency
Digital transactions create electronic records and improve traceability.

6. Increased participation
Small merchants and low-income customers can participate in formal digital finance.

7. Reduced dependence on cash
Digital payments reduce the need to carry and store physical cash.

8. Better access to credit
Digital financial records and consent-based data sharing can potentially help lenders assess customers who have limited traditional credit histories.

7. Challenges of Digital Financial Inclusion

Technology also creates new challenges.

Digital divide
Some people lack smartphones, internet access or digital skills.

Cyber fraud
Customers may face phishing, OTP fraud, fake applications and social-engineering attacks.

Data privacy
Financial information needs strong protection.

Digital illiteracy
Customers may not understand how to safely use digital financial services.

Connectivity problems
Poor internet or mobile connectivity can interrupt transactions in rural areas.

Exclusion due to technology
People who cannot use digital channels may still require physical or assisted banking.

Customer protection
Digital lending and financial products must be transparent and responsibly provided.

8. Technology + Financial Inclusion: The Complete Model

Digital Identity
↓
Digital KYC
↓
Bank Account
↓
Mobile/Internet Banking
↓
UPI & Digital Payments
↓
Digital Credit
↓
Insurance & Pension
↓
Financial Literacy
↓
Financial Security & Economic Empowerment

9. Key Government/RBI-Enabled Digital Initiatives

Some important initiatives and infrastructures supporting financial inclusion include:

- **Digital India**
- **Pradhan Mantri Jan-Dhan Yojana (PMJDY)**
- **Aadhaar**
- **UPI**
- **Aadhaar Enabled Payment System (AePS)**
- **BHIM**
- **RuPay**
- **Business Correspondent model**
- **Micro-ATMs**
- **Direct Benefit Transfer (DBT)**
- **Account Aggregator framework**
- **DigiLocker**
- **Central Bank Digital Currency (Digital Rupee/e₹)**

Conclusion

Technology has changed financial inclusion from **"bringing people to the bank"** to increasingly **"bringing banking to the people."**

The combination of **Digital India, mobile connectivity, Aadhaar-enabled infrastructure, UPI, Business Correspondents, digital KYC, DBT and other digital public infrastructure** has expanded access to financial services.

However, true digital financial inclusion requires more than technology. It must combine:

Access + Affordability + Digital Literacy + Cybersecurity + Consumer Protection + Actual Usage

Therefore, the ultimate objective is to ensure that **every person can safely and meaningfully use appropriate financial services, irrespective of income or geographical location**.

Role of Technology in Financial Inclusion

Technology plays a vital role in financial inclusion by making financial services accessible, affordable, convenient, secure and available to people who are unbanked or underserved.

Traditionally, financial inclusion depended mainly on physical bank branches. Technology has changed this model by enabling **"banking anywhere and anytime."**

Basic Concept

Technology → Wider Access → Lower Cost → Greater Usage → Financial Inclusion

1. Mobile Banking

Mobile phones allow customers to access banking services without visiting a branch.

Customers can:

- Check account balances
- Transfer funds
- Make payments
- Pay bills
- Receive money
- Obtain account information

Importance: Particularly useful for people in rural and remote areas.

2. Digital Payments

Technology has enabled fast and convenient digital payment systems such as:

- UPI
- Mobile payments
- Debit cards
- Credit cards
- QR-code payments
- Internet banking

These systems allow even small-value transactions to be conducted electronically.

3. UPI

Unified Payments Interface (UPI) has become a major tool for financial inclusion.

It enables customers to transfer money directly between bank accounts using mobile applications.

It benefits:

- Small merchants
- Rural customers
- Workers
- Small businesses
- Households

It also reduces dependence on cash.

4. Digital KYC and e-KYC

Technology simplifies the customer identification and account-opening process.

Digital KYC/e-KYC can:

- Reduce paperwork
- Reduce time

- Reduce onboarding costs
- Make account opening easier
- Facilitate remote customer onboarding, subject to regulatory requirements

This helps people enter the formal financial system more easily.

5. Aadhaar-Enabled Financial Services

Aadhaar-based infrastructure can support financial inclusion through identity authentication and services such as **Aadhaar Enabled Payment System (AePS)**, subject to applicable regulations.

It can facilitate:

- Banking transactions
- Customer identification
- Government benefit transfers
- Certain BC-based transactions

6. Business Correspondent (BC) Model

Technology has made it possible for **Business Correspondents** to provide specified banking services outside traditional branches.

BCs may use:

- Micro-ATMs
- Smartphones
- Biometric devices
- PoS machines
- Mobile connectivity

Thus:

Bank → Business Correspondent → Customer

This is particularly valuable in villages where full-service branches may be limited.

7. Micro-ATMs

Micro-ATMs allow BCs to provide certain banking transactions in areas without conventional ATMs or branches.

They can facilitate services such as:

- Cash withdrawal
- Cash deposit, where permitted
- Balance enquiry
- Other authorized transactions

This supports **last-mile banking**.

8. Internet Banking

Internet banking provides customers with access to financial services through computers and other connected devices.

It enables:

- Fund transfers
- Bill payments
- Account statements
- Online service requests
- Loan-related services

- Investment-related services

9. Digital Credit

Technology has made the credit process faster through:

- Online loan applications
- Digital documentation
- Automated credit assessment
- Electronic verification
- Digital disbursement
- Online repayment

This can help small businesses and individuals obtain formal credit more conveniently, provided lending is conducted responsibly and in accordance with regulations.

10. Direct Benefit Transfer (DBT)

Digital banking infrastructure enables eligible government benefits to be transferred directly into beneficiaries' bank accounts.

Benefits include:

- Faster payments
- Greater transparency
- Better traceability
- Reduced intermediaries
- Potential reduction in leakages

Thus, technology strengthens the connection between **financial inclusion and social-welfare delivery**.

11. Account Aggregator System

The **Account Aggregator** framework enables customers, with their consent, to share financial information between participating financial institutions through a regulated digital framework.

It can potentially help customers obtain:

- Credit
- Financial products
- Better financial services

by allowing useful financial information to be shared securely and efficiently.

12. Financial Literacy Through Technology

Technology can also be used to provide financial education through:

- Mobile applications
- Websites
- Videos
- SMS
- Online courses
- Digital awareness campaigns
- Social media

This helps customers understand savings, credit, insurance, pensions and digital-payment safety.

13. Technology in Insurance and Pension Inclusion

Technology makes it easier for people to access:

Insurance

- Online policy purchase
- Premium payment
- Digital claims
- Policy information

Pension

- Digital registration
- Online contributions
- Account information
- Electronic statements

Thus, financial inclusion extends beyond banking to **overall financial security**.

Major Benefits of Technology in Financial Inclusion

Benefit	Explanation
Accessibility	Financial services reach remote areas
Affordability	Reduces the cost of delivering services
Convenience	Services available through mobile/digital channels
Speed	Transactions can be processed rapidly
Transparency	Electronic records improve traceability
Geographical reach	Reduces dependence on physical branches
Financial literacy	Information can be delivered digitally
Credit access	Digital processes can simplify lending
Government transfers	Enables direct benefit transfers
Customer empowerment	Customers can access and manage finances directly

Challenges of Technology-Based Financial Inclusion

Technology also creates certain risks:

1. Digital divide

Not everyone has smartphones, internet access or digital devices.

2. Digital illiteracy

Customers may not know how to use digital financial services safely.

3. Cyber fraud

Phishing, OTP fraud, fake applications and social engineering can cause financial losses.

4. Data privacy

Financial and personal information must be adequately protected.

5. Connectivity problems

Poor telecommunications infrastructure can disrupt rural digital banking.

6. Technology-related exclusion

Customers who cannot use digital channels may still require physical or assisted banking.

7. Lack of awareness

Customers may not understand the risks and terms associated with digital financial products.

Technology-Enabled Financial Inclusion Model
Digital Identity
↓
Digital KYC
↓
Bank Account
↓
Mobile/Internet Banking
↓
Digital Payments / UPI
↓
Formal Credit
↓
Insurance + Pension
↓
Financial Literacy & Consumer Protection
↓
Financial Empowerment

Conclusion
Technology is a major enabler of financial inclusion. It reduces geographical and cost barriers and allows banks and other regulated financial institutions to reach customers through **mobile banking, UPI, digital KYC, BCs, micro-ATMs, digital credit, DBT and other digital infrastructure**.
However, technology alone cannot guarantee financial inclusion. Effective inclusion requires:
Technology + Accessibility + Affordability + Financial Literacy + Cybersecurity + Consumer Protection
Thus, the ultimate objective is not merely to provide **digital access**, but to ensure that people can **safely, regularly and meaningfully use financial services**.

Module B: FINANCIAL INCLUSION AND ROLE OF BCAs
Chapter 12: Microfinance and Self-Help Groups (SHGs)
12.1 What is Microfinance?
12.2 SHG – Definition

What is Microfinance?

Microfinance means the provision of **small-scale financial services to low-income individuals, households and micro-enterprises that have limited or inadequate access to conventional banking services**.

It is an important instrument of **financial inclusion**, particularly for poor, rural and underserved sections of society.

Financial services under Microfinance

Microfinance may include:

- **Microcredit** – small loans
- **Savings** – small-value savings facilities
- **Insurance** – protection against financial risks
- **Pension** – retirement/old-age financial security
- **Remittances** – money transfer facilities
- **Payments** – payment and transaction services
- **Financial literacy** – education about financial products and money management

Microfinance vs Microcredit

A very important distinction:

Microcredit = small loans only

Microfinance = broader range of financial services, including microcredit

Therefore, **microcredit is a component of microfinance**.

Microfinance in India

Under the RBI's current regulatory framework, a **microfinance loan** is a **collateral-free loan to a household having annual household income up to ₹3 lakh**, irrespective of the end use of the loan.

Microfinance can be provided by various regulated entities, including:

- Banks
- Small Finance Banks
- Regional Rural Banks
- Cooperative Banks
- NBFCs, including NBFC-MFIs

Main objectives

The major objectives of microfinance are to:

1. Promote **financial inclusion**.
2. Provide affordable formal credit.
3. Reduce dependence on informal moneylenders.
4. Promote self-employment and micro-enterprises.
5. Support rural economic development.
6. Empower women and disadvantaged groups.
7. Improve household financial security.

Simple example
Suppose a woman in a village wants **₹40,000 to purchase equipment for a tailoring business**, but she does not have property to offer as security.
A qualifying microfinance lender may provide a **collateral-free loan**, subject to eligibility and repayment-capacity requirements.
She uses the loan to generate income and repays it periodically.
In one sentence:
Microfinance is a financial-inclusion mechanism that provides appropriate small-scale financial services, especially credit, to low-income and underserved people so that they can improve their livelihoods and financial security.

Microfinance and Microfinance Institutions (MFIs) — Complete Notes
1. Meaning of Microfinance
Microfinance means the provision of **small-scale financial services to low-income individuals and households who have limited or no access to conventional banking services**.
Microfinance is broader than microcredit. It can include:

- Small loans
- Savings
- Insurance
- Pension
- Remittance services
- Payment services
- Financial literacy
- Other financial services

Its principal objective is to provide **access to formal finance to financially excluded sections** and support livelihoods, self-employment and household financial security.

2. Microcredit vs Microfinance
These terms should not be confused.

Microcredit	**Microfinance**
Mainly refers to **small loans**	Broader concept covering several financial services
Credit is the central component	Credit + savings + insurance + pension + payments etc.
Narrower concept	Wider concept
Example: ₹50,000 livelihood loan	Loan + savings + insurance + payment services

Easy formula:
Microcredit ⊂ Microfinance

3. RBI Definition of a Microfinance Loan
Under RBI's current regulatory framework, a **microfinance loan** is a **collateral-free loan to a household having annual household income up to ₹3 lakh**. The definition applies irrespective of the end use or whether the loan is processed/disbursed physically or digitally. (Reserve Bank of India)
The framework also requires assessment of household income and indebtedness. For a low-income household, **monthly loan repayment obligations cannot exceed 50% of monthly household income**, covering both microfinance and non-microfinance loans. (Reserve Bank of India)

Important exam point
Current RBI definition: Microfinance loan = collateral-free loan + household annual income up to ₹3 lakh.

4. Objectives of Microfinance
The major objectives are:

1. **Financial inclusion**
2. Provision of affordable credit
3. Reduction of dependence on moneylenders
4. Promotion of self-employment
5. Development of micro-enterprises
6. Poverty reduction
7. Women's economic empowerment
8. Promotion of savings
9. Support for rural development
10. Improvement of household financial security
11. Creation of employment
12. Integration of low-income households into the formal financial system

5. Characteristics of Microfinance
1. Small-value financial services
Services are generally designed for customers requiring relatively small amounts.
2. Focus on low-income households
Microfinance primarily targets financially underserved and low-income households.
3. Collateral-free lending
Microfinance loans under the RBI regulatory definition are collateral-free. (Reserve Bank of India)
4. Group-based lending
Many microfinance programmes use:

- Self-Help Groups (SHGs)
- Joint Liability Groups (JLGs)
- Group guarantees

5. Shorter repayment intervals
Depending on the product, repayment may occur weekly, fortnightly or monthly.
6. Doorstep/last-mile service
MFIs and BC networks may take services closer to customers, particularly in rural areas.
7. Livelihood orientation
Loans may support:

- Agriculture and allied activities
- Small shops
- Livestock
- Handicrafts
- Tailoring
- Food businesses
- Other micro-enterprises

8. Financial inclusion orientation
Microfinance seeks to connect people who may otherwise have limited access to formal financial institutions.

6. Microfinance Institutions (MFIs)

Microfinance Institutions (MFIs) are organizations that provide microfinance services, particularly to low-income and underserved customers.

They may operate under different legal and institutional forms.

Important categories include:

- **NBFC-MFIs**
- Banks providing microfinance loans
- Small Finance Banks
- Cooperative institutions
- Section 8 not-for-profit companies engaged in microfinance
- Other eligible institutions/entities

Therefore:

MFI is an institution; microfinance is the financial service/activity.

7. NBFC-MFI

An **NBFC-MFI** is a specialized category of **Non-Banking Financial Company** regulated by RBI.

Under the current framework, an NBFC-MFI is a **non-deposit-taking NBFC with at least 75% of its total assets deployed toward microfinance loans**. RBI's regulatory handbook currently lists the minimum Net Owned Fund for an NBFC-MFI as **₹10 crore**.

Important distinction

Earlier RBI rules used a different concept of **"qualifying assets"**, with requirements such as 85% of net assets. The framework was substantially revised in 2022.

For current examination purposes, use the **present 75% of total assets** requirement rather than the older 85% criterion.

8. Major Types of Microfinance Institutions

A. NBFC-MFIs

These are RBI-regulated non-deposit-taking NBFCs specializing in microfinance.

They raise funds through permitted sources and provide loans to eligible borrowers.

B. Banks

Commercial banks, including eligible Small Finance Banks and other regulated banks, can provide microfinance loans.

Thus, microfinance is **not limited to MFIs**.

C. Small Finance Banks

Small Finance Banks were established with a strong focus on:

- Financial inclusion
- Small borrowers
- Small businesses
- Farmers
- Micro and small enterprises
- Unorganized-sector entities

They combine banking services with a strong inclusion objective.

D. Self-Help Groups (SHGs)

An SHG is a small voluntary group, commonly consisting of members from similar socio-economic backgrounds who:

1. Save regularly.
2. Pool their savings.
3. Provide small loans to members.
4. Build credit discipline.
5. Eventually obtain bank credit through SHG-bank linkage.

E. Joint Liability Groups (JLGs)

A JLG consists of individuals who jointly undertake responsibility for repayment of loans.

JLGs are particularly useful for:

- Small and marginal farmers
- Tenant farmers
- Sharecroppers
- Small rural entrepreneurs
- Other borrowers without conventional collateral

9. SHG–Bank Linkage Programme

One of India's most important microfinance initiatives is the **Self-Help Group–Bank Linkage Programme (SHG-BLP)** pioneered by NABARD in 1992.

It connects:

SHG → Bank Account → Savings → Bank Credit → Livelihood → Economic Empowerment

The Programme has become a major instrument of rural financial inclusion and women's empowerment. As of March 2025, NABARD reported **143.30 lakh savings-linked SHGs**, with savings of approximately **₹71,433 crore**. (NABARD)

10. How the SHG Model Works

Step 1: Formation

A group of people, often women, forms an SHG.

Step 2: Regular Savings

Members contribute a fixed amount periodically.

Step 3: Internal Lending

The pooled savings are lent to members who need funds.

Step 4: Credit Discipline

Members develop repayment and financial-management discipline.

Step 5: Bank Linkage

The SHG opens a bank account and becomes eligible for bank credit under applicable norms.

Step 6: Larger Loans

As the group's performance improves, it can obtain larger bank loans.

Step 7: Livelihood Development

Members use funds for productive and livelihood activities.

11. Difference Between SHG and JLG

Basis	SHG	JLG
Main purpose	Savings + credit + collective empowerment	Mainly access to credit
Savings	Central feature	Not necessarily central
Internal lending	Usually yes	Generally, no
Group structure	Savings-oriented group	Joint-liability borrowing group
Liability	Group discipline	Joint liability for repayment
Common users	Rural households, especially women	Farmers, tenants, small borrowers
Bank linkage	Yes	Yes

12. Sources of Funds for MFIs

MFIs may obtain funds through permitted sources such as:

- Bank loans
- Equity capital
- Debentures/bonds
- External commercial borrowings, where permitted
- Other permitted market borrowings
- Securitization/assignment arrangements, subject to applicable rules

They then deploy these funds as loans to eligible customers.

13. Microfinance Lending Process

Identification of Borrower
↓
Household Income Assessment
↓
Existing Indebtedness Assessment
↓
Credit Assessment
↓
Loan Approval
↓
Loan Disbursement
↓
Regular Repayment
↓
Credit History Building
↓
Future Access to Formal Finance

14. Types of Microfinance Loans

Microfinance loans may be used for different purposes, including:

Productive purposes

- Agriculture
- Dairy
- Poultry
- Fisheries
- Small shops
- Handicrafts
- Tailoring
- Food processing
- Small manufacturing

Consumption purposes

The current RBI framework does not define a microfinance loan solely by its end use. Thus, qualifying collateral-free loans to low-income households can include certain consumption loans as well. (Reserve Bank of India)

15. Role of Microfinance in Financial Inclusion

Microfinance helps connect financially excluded people with the formal financial system.

Financial Inclusion Chain

Unbanked Person
↓
Microfinance/SHG
↓
Savings
↓
Small Credit
↓
Micro-enterprise
↓
Income Generation
↓
Banking History
↓
Greater Formal Financial Access

16. Role of Microfinance in Poverty Reduction

Microfinance can help households:

- Start small businesses.
- Purchase productive assets.
- Increase income-generating capacity.
- Manage temporary financial needs.
- Build financial assets.
- Reduce dependence on informal lenders.

However, **microfinance by itself is not a guaranteed solution to poverty**. Its effectiveness depends on responsible lending, productive use of funds, reasonable pricing, borrower capacity and broader livelihood opportunities.

17. Role in Women's Empowerment

Microfinance has a particularly important role in women's financial participation.
It can provide women with:

- Access to credit
- Savings opportunities
- Business capital
- Financial decision-making power
- Entrepreneurial opportunities
- Group-based social support

The SHG movement in India has therefore become closely associated with **women's empowerment and rural livelihoods**. NABARD describes SHG-BLP as a major platform for collective action, savings mobilization, formal credit access and women's empowerment. (NABARD)

18. Role of NABARD

NABARD has played a major developmental role in India's microfinance ecosystem.
Its important contributions include:

1. SHG–Bank Linkage Programme

Launched on a pilot basis in **1992**.

2. Capacity building

Training SHGs, banks and other stakeholders.

3. Financial literacy

4. Micro-enterprise development

5. Livelihood development

6. Digitalization of SHGs

NABARD's **eShakti** initiative has supported digitization of SHG records, improved transparency and creating useful credit histories. (NABARD)

19. Microfinance and Government Programmes

Microfinance is connected with several financial-inclusion and livelihood initiatives, including:

- **Pradhan Mantri Jan-Dhan Yojana**
- **DAY-NRLM**
- **MUDRA**
- **SHG-Bank Linkage Programme**
- **Priority Sector Lending**
- Financial literacy programmes

Under DAY-NRLM, banks provide credit linkage and other financial facilities to eligible SHGs; NABARD's guidance also describes support for mature SHG members graduating toward entrepreneurship. (NABARD)

20. RBI Regulation of Microfinance

A major change occurred when RBI introduced a **common regulatory framework for microfinance loans across regulated entities**, effective from April 1, 2022.

The framework covers regulated entities including:

- Commercial Banks
- Small Finance Banks
- Regional Rural Banks
- Cooperative Banks
- NBFCs, including NBFC-MFIs

Key regulatory principles

A. Household income assessment

The lender must assess household income.

B. Household indebtedness assessment

Existing debt obligations must be considered.

C. 50% repayment obligation limit

Monthly loan repayment obligations of the household should not exceed **50% of monthly household income**. (Reserve Bank of India)

D. No collateral for microfinance loans

Microfinance loans are collateral-free under the RBI definition. (Reserve Bank of India)

E. Transparent pricing

Borrowers must receive appropriate information regarding the cost of credit.

F. Fair practices

Lenders must follow customer-protection and fair-practice requirements.

21. Advantages of Microfinance

For borrowers

- Easy access to small loans
- Reduced dependence on informal lenders
- No traditional collateral for qualifying microfinance loans
- Support for self-employment
- Improved financial inclusion
- Potential improvement in household income

For women

- Financial independence
- Entrepreneurship
- Increased participation in household decisions
- Group support

For banks

- Access to new customer segments
- Expansion of formal credit
- Improved financial inclusion

For the economy

- Rural development
- Employment generation
- Micro-enterprise development
- Savings mobilization

- Greater formalization of finance

22. Problems and Risks of Microfinance

Microfinance also has limitations.

1. Over-indebtedness

If borrowers take multiple loans from different institutions, repayment burdens can become excessive.

2. High cost of servicing small loans

Small loans can be expensive to administer, which can affect pricing.

3. Multiple borrowing

Borrowers may borrow from several lenders simultaneously.

4. Misuse of loans

Funds may sometimes be used for consumption rather than productive activities.

5. Recovery pressure

Aggressive or inappropriate recovery practices can harm vulnerable borrowers.

6. Income instability

Low-income borrowers often have irregular income, increasing repayment risk.

7. Limited financial literacy

Borrowers may not fully understand interest, fees and repayment obligations.

8. Regional concentration

Microfinance activity can be unevenly distributed geographically.

9. Operational risks

MFIs face credit, liquidity, fraud, technology and cybersecurity risks.

23. Microfinance vs Traditional Banking

Basis	**Microfinance**	**Traditional Banking**
Target group	Low-income/underserved customers	Broad customer base
Loan size	Generally small	Small to very large
Collateral	Qualifying microfinance loans are collateral-free	Often collateral/security may be required
Delivery	Often doorstep/group/digital	Mainly branches + digital channels
Group lending	Common in some models	Less common
Documentation	Designed for simplified access within regulation	Generally, more extensive
Purpose	Financial inclusion/livelihoods	All major financial needs
Customer segment	Often financially underserved	General population and businesses

24. Microfinance vs Moneylender

Microfinance Institution	Moneylender
Operates within applicable regulatory framework	May operate informally depending on jurisdiction
Formal documentation	Often informal
Transparent regulated practices required	Practices may vary
Customer protection framework	Applicable regulatory protections
Credit information/reporting may apply	Often limited
Formal financial inclusion	Outside or less connected to formal banking

25. Microfinance Ecosystem in India

The Indian microfinance ecosystem can be represented as:

RBI
↓
Banks / NBFC-MFIs / SFBs / Cooperatives / Other regulated entities
↓
SHGs / JLGs / Individual Borrowers
↓
Microcredit + Savings + Insurance + Pension + Payments
↓
Livelihoods / Micro-enterprises
↓
Income & Financial Security

Supporting institutions include:

NABARD + Government + NRLM + Banks + MFIs + NGOs + Digital Platforms

26. Important Terms to Remember

Term	Meaning
Microfinance	Broad provision of financial services to underserved/low-income customers
Microcredit	Small loans
MFI	Microfinance Institution
NBFC-MFI	RBI-regulated NBFC specialising in microfinance
SHG	Self-Help Group
JLG	Joint Liability Group
SHG-BLP	SHG–Bank Linkage Programme
NABARD	National Bank for Agriculture and Rural Development
NRLM	National Rural Livelihoods Mission
Over-indebtedness	Debt burden beyond borrower's repayment capacity
Collateral	Asset/security pledged against a loan
Financial inclusion	Access to appropriate formal financial services

27. Very Important Exam Points

Remember these five points:

1. Microfinance ≠ Microcredit

Microcredit is mainly **small loans**; microfinance is the **broader financial-service concept**.

2. Microfinance ≠ only MFIs

Banks, SFBs, cooperative institutions and other regulated entities can also provide microfinance loans.

3. Current RBI definition

A microfinance loan is a **collateral-free loan to a household with annual household income up to ₹3 lakh**. (Reserve Bank of India)

4. 50% rule

Household monthly loan repayment obligations should not exceed **50% of monthly household income** under the RBI framework. (Reserve Bank of India)

5. NBFC-MFI

Currently, an NBFC-MFI is a non-deposit-taking NBFC with **at least 75% of total assets deployed toward microfinance loans**. (System Health)

28. Short Exam Answer

Microfinance is the provision of small-scale financial services to low-income and financially underserved individuals and households. It includes microcredit and may also encompass savings, insurance, pensions, payments and other financial services. Microfinance institutions such as NBFC-MFIs, banks, Small Finance Banks, SHGs and JLGs play an important role in financial inclusion. In India, the SHG–Bank Linkage Programme pioneered by NABARD has been a major mechanism for connecting rural households with formal credit. RBI regulates microfinance loans through a common framework covering regulated entities, with important provisions relating to household income, indebtedness, repayment obligations, collateral-free lending, pricing and customer protection. Microfinance promotes financial inclusion, self-employment, rural development and women's empowerment, but requires responsible lending to prevent over-indebtedness and other risks.

SHG – Definition

SHG stands for Self-Help Group.

A **Self-Help Group (SHG)** is a **voluntary association of people, generally from economically and socially similar backgrounds, who come together to save regularly, pool their savings, provide small loans to members, and undertake collective activities for their social and economic development.**

Simple Definition

An SHG is a small, voluntary, self-managed group whose members regularly save money, create a common fund and provide financial and mutual support to one another.

Key Features of an SHG

1. **Voluntary membership** – Members join voluntarily.
2. **Small group** – Usually consists of a relatively small number of members.
3. **Common socio-economic background** – Members generally have similar economic circumstances.
4. **Regular savings** – Members contribute a fixed amount periodically.
5. **Common fund** – Savings are pooled into a group fund.
6. **Internal lending** – The pooled money can be lent to members.
7. **Group decision-making** – Decisions are generally taken collectively.
8. **Mutual responsibility** – Members support one another.
9. **Bank linkage** – SHGs can maintain bank accounts and obtain institutional credit.
10. **Self-management** – The group is managed by its members.

SHG and Financial Inclusion

The SHG model is an important tool for **microfinance and financial inclusion** because it connects financially underserved people with formal banking institutions.

Members → Regular Savings → Common Fund → Internal Loans → Bank Linkage → Bank Credit → Livelihood Development

In India, the **SHG–Bank Linkage Programme (SHG-BLP)** pioneered by NABARD has played a major role in connecting SHGs with the formal banking system.

Exam definition:

A Self-Help Group is a voluntary, self-managed group of people with similar socio-economic backgrounds who regularly save, pool their resources and provide mutual financial assistance, particularly through savings and credit activities, for their economic and social development.

Self-Help Groups (SHGs) in India — Complete Notes

1. Meaning of SHG

SHG stands for Self-Help Group.

A **Self-Help Group** is a small, voluntary, self-managed group of people, generally belonging to similar socio-economic backgrounds, who **come together to save regularly, create a common fund, provide loans to members and undertake collective activities for their economic and social development**.

In India, SHGs have become one of the most important instruments of **financial inclusion, microfinance, rural development and women's empowerment**.

Simple formula

Small Savings → Common Fund → Internal Lending → Bank Linkage → Credit → Income Generation → Empowerment

2. Origin and Development of SHGs in India

The SHG movement in India developed strongly during the **1980s and 1990s**.

A landmark development was the **SHG–Bank Linkage Programme (SHG-BLP)** pioneered by **NABARD in 1992**.

The Programme sought to connect informal community-based savings groups with the formal banking system.

Evolution

Informal savings groups

↓

NABARD pilot SHG–Bank Linkage Programme (1992)

↓

Expansion of SHG-bank credit linkage

↓

Government livelihood programmes

↓

DAY-NRLM / State SHG programmes

↓

Digitalization and enterprise development

3. Objectives of SHGs

The major objectives are:

1. Promote **regular savings**.
2. Provide **small loans to members**.
3. Improve access to formal banking.
4. Reduce dependence on moneylenders.
5. Promote self-employment.
6. Develop micro-enterprises.
7. Increase women's economic participation.
8. Improve financial literacy.
9. Develop leadership and decision-making skills.
10. Promote collective action.
11. Reduce poverty.
12. Improve rural livelihoods.
13. Encourage social development.
14. Build credit discipline.

4. Characteristics of SHGs

1. Small group

An SHG normally consists of a relatively small number of members.

2. Voluntary association

People join voluntarily and participate in group activities.

3. Similar socio-economic background

Members are generally drawn from similar socio-economic circumstances.

4. Regular savings

Each member contributes a predetermined amount regularly.

5. Common fund

Members' savings are pooled into a common fund.

6. Internal lending
The group lends from its common fund to members who require money.
7. Collective decision-making
Important decisions are taken by the members collectively.
8. Self-management
The group is managed by its own members.
9. Mutual trust
Trust and peer support are important elements.
10. Bank linkage
The SHG can establish a relationship with a bank and obtain institutional credit.

5. Composition of an SHG
An SHG generally consists of people with broadly similar socio-economic circumstances.
Many Indian SHGs are **women's groups**, particularly under rural livelihood programmes.
The group normally has:

- Members
- President/leader or chairperson
- Secretary
- Treasurer

The precise organizational structure can vary depending on the Programme or state.

6. How an SHG Works
Step 1 – Formation
People with common socio-economic circumstances form a group.
Step 2 – Regular meetings
Members meet periodically.
Step 3 – Savings
Every member contributes an agreed amount.
Step 4 – Creation of common fund
Members' savings are deposited into the group's account/common fund.
Step 5 – Internal lending
Members can borrow from the common fund according to group rules.
Step 6 – Repayment
Members repay the amount according to agreed terms.
Step 7 – Bank linkage
After establishing a satisfactory track record, the SHG can be linked to a bank for institutional credit.
Step 8 – Larger economic activities
Members may use loans for:

- Agriculture
- Livestock
- Tailoring
- Small shops
- Food processing
- Handicrafts
- Other micro-enterprises

7. SHG–Bank Linkage Programme

The **SHG–Bank Linkage Programme (SHG-BLP)** is one of India's most important microfinance initiatives.

It was **piloted by NABARD in 1992**.

Its basic model is:

SHG → Savings → Bank Account → Credit Linkage → Livelihood Activity

The Programme bridges the gap between:

Informal community finance ↔ Formal banking system

Importance

The Programme:

- Mobilizes rural savings.
- Creates credit discipline.
- Provides institutional credit.
- Reduces dependence on informal lenders.
- Promotes financial inclusion.
- Supports women's empowerment.

8. Role of NABARD

NABARD (National Bank for Agriculture and Rural Development) has played a pioneering role in India's SHG movement.

Its major contributions include:

1. SHG–Bank Linkage Programme

NABARD pioneered the Programme in 1992.

2. Capacity building

It supports training and institutional development of SHGs and stakeholders.

3. Financial literacy

NABARD supports financial awareness and literacy initiatives.

4. Livelihood development

It supports programmes designed to improve income-generating activities.

5. Digitalization

NABARD's **eShakti** initiative has promoted digitization of SHG records and transactions, helping improve transparency and information availability.

9. Role of Banks in SHGs

Banks play an important role by:

- Opening SHG bank accounts.
- Accepting group savings.
- Providing credit linkage.
- Monitoring repayment.
- Providing financial services.
- Supporting digital banking.
- Encouraging financial literacy.
- Facilitating government Programme linkages.

Bank–SHG relationship
SHG Savings → Bank Deposit → Credit History → Bank Loan → Livelihood → Repayment → Further Credit

10. SHGs under DAY-NRLM
The **Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM)** is a major Government of India Programme for rural poverty reduction and livelihood promotion.
It promotes the organization of rural poor households into:
SHGs → Village Organizations → Cluster-Level Federations
Major objectives

- Organize rural poor households.
- Promote women's SHGs.
- Improve access to institutional credit.
- Develop sustainable livelihoods.
- Improve financial inclusion.
- Promote entrepreneurship.
- Build community institutions.

11. SHG Federations
SHGs can be organized into higher-level institutions.
Three-level structure
SHG
↓
Village Organization (VO)
↓
Cluster-Level Federation (CLF)
This creates greater bargaining power and institutional capacity.
Benefits
Federations can support:

- Training
- Credit access
- Marketing
- Procurement
- Enterprise development
- Government programme implementation
- Collective bargaining

12. SHGs and Women Empowerment
One of the most important contributions of SHGs in India is **women's empowerment**.
SHGs can help women gain:

- Access to savings
- Access to credit
- Income-generating opportunities
- Business skills
- Financial literacy
- Leadership skills

- Collective bargaining power
- Greater participation in household decisions

Thus:

Financial Empowerment → Economic Empowerment → Social Empowerment

13. Economic Activities of SHG Members

SHG members may undertake various income-generating activities.

Agriculture

- Crop cultivation
- Vegetable farming
- Seed production

Allied activities

- Dairy
- Poultry
- Goat rearing
- Fisheries

Manufacturing

- Handicrafts
- Textiles
- Food processing
- Small-scale production

Services

- Tailoring
- Beauty services
- Catering
- Small retail businesses

14. Sources of Finance for SHGs

SHGs can obtain funds from:

1. Member savings

The primary internal source.

2. Internal lending

Members borrow from the group's common fund.

3. Bank credit

Banks provide loans to eligible SHGs.

4. Government support

Various government programmes can provide financial or institutional support.

5. Other institutional sources

Depending on the Programme and applicable rules, SHGs may receive support through development institutions and livelihood programmes.

15. SHG Credit

SHG credit is generally based on the groups:

- Savings
- Track record
- Internal lending performance
- Financial discipline
- Repayment history
- Creditworthiness
- Programme/bank requirements

Unlike conventional individual lending, SHG lending places significant emphasis on **group discipline and collective responsibility**.

16. SHG vs JLG

This is an important examination topic.

Basis	**SHG**	**JLG**
Full form	Self-Help Group	Joint Liability Group
Main purpose	Savings + credit + empowerment	Mainly access to credit
Savings	Central feature	Not necessarily central
Internal lending	Usually, present	Generally absent
Liability	Group-based discipline	Joint liability for repayment
Members	Usually, similar socio-economic background	Often similar economic activity/credit needs
Main beneficiaries	Frequently women/rural households	Farmers, tenant farmers, small borrowers
Bank linkage	Yes	Yes

17. SHG vs MFI

Basis	**SHG**	**MFI**
Nature	Member-based group	Financial institution
Ownership	Members	Institution/company/other legal entity
Main activity	Savings and mutual lending	Providing financial services
Size	Small group	Institutional scale
Bank linkage	Can obtain bank credit	May borrow from banks and lend to customers
Social objective	Mutual support and empowerment	Financial service delivery and inclusion
Example	Women's savings group	NBFC-MFI

18. SHG vs Microfinance

SHG	Microfinance
An organizational/group model	A broader financial-service concept
Members save and lend collectively	Includes credit and other financial services
Can be linked to banks	Can be provided by banks, MFIs and other institutions
Strong community element	Strong financial-service element
Often promotes social empowerment	Primarily focuses on financial access

19. Advantages of SHGs

A. Financial benefits

- Encourages savings.
- Provides small loans.
- Improves access to bank credit.
- Reduces dependence on moneylenders.
- Builds credit discipline.

B. Economic benefits

- Promotes self-employment.
- Supports micro-enterprises.
- Increases household income.
- Creates employment.
- Develops entrepreneurial skills.

C. Social benefits

- Promotes collective action.
- Builds confidence.
- Develops leadership.
- Improves participation in community affairs.
- Strengthens social networks.

D. Women's empowerment

- Improves women's control over financial resources.
- Increases economic participation.
- Develops decision-making skills.
- Creates opportunities for entrepreneurship.

20. Problems and Challenges of SHGs

Despite their success, SHGs face several challenges.

1. Limited financial literacy

Members may have inadequate knowledge of banking and financial products.

2. Weak record keeping

Poor maintenance of accounts can affect transparency.

3. Limited access to markets

Producing goods is easier than finding profitable markets.

4. Small scale of operations

Many SHGs remain at subsistence level.

5. Limited managerial skills
Members may require training in:

- Accounting
- Marketing
- Business planning
- Digital finance

6. Dependence on external credit
Some groups may become dependent on bank or institutional loans.
7. Multiple borrowing
Members can become over-indebted if they borrow from several sources.
8. Group conflicts
Differences among members can affect group functioning.
9. Digital divide
Limited access to smartphones, internet or digital skills can restrict digital participation.
10. Sustainability
Some groups become inactive after initial formation.

21. SHGs and Financial Inclusion
SHGs provide a pathway from **financial exclusion to financial inclusion**.
Financial inclusion process
Poor/Unbanked Person
↓
SHG Membership
↓
Regular Savings
↓
Internal Lending
↓
Bank Account
↓
Bank Credit
↓
Micro-enterprise/Livelihood
↓
Income Generation
↓
Financial Empowerment

22. Role of Technology in SHGs

Technology is increasingly important in the SHG ecosystem.

It can support:

- Digital bookkeeping
- Online bank transactions
- Digital payments
- Credit information
- Financial literacy
- Digital marketing
- E-commerce
- Government-benefit delivery
- Monitoring of SHG performance

NABARD's **eShakti** initiative is an important example of SHG digitalization.

23. SHGs and Digital Financial Inclusion

SHGs can help rural households adopt:

- Mobile banking
- UPI
- Digital payments
- Aadhaar-enabled services, where applicable
- Bank cards
- Online government services

This creates a bridge between **community-based finance and India's digital financial infrastructure**.

24. SHGs and Poverty Reduction

SHGs can contribute to poverty reduction by:

1. Mobilizing savings.
2. Providing access to credit.
3. Supporting livelihood activities.
4. Creating micro-enterprises.
5. Improving household financial management.
6. Developing women's economic participation.
7. Connecting households to government livelihood programmes.

However, **SHGs are not a stand-alone solution to poverty**. Their effectiveness depends on access to markets, skills, infrastructure, credit, technology and sustainable livelihood opportunities.

25. SHGs and Financial Literacy

SHGs provide a useful platform for financial education.

Members can learn about:

- Savings
- Loans
- Interest rates
- Insurance
- Pension
- Digital payments

- Fraud prevention
- Credit discipline
- Government schemes
- Banking rights and grievance mechanisms

26. SHGs and Government Schemes

SHGs are associated with several government and institutional programmes, including:

- **DAY-NRLM**
- **PMJDY**
- **MUDRA**
- Financial literacy programmes
- Priority-sector credit
- Livelihood development programmes
- State-level SHG programmes

The exact benefits and eligibility depend on the particular scheme and applicable rules.

27. Importance of SHGs in Rural India

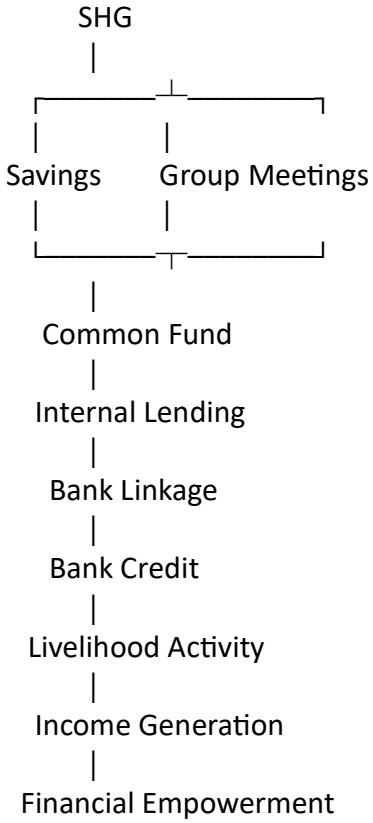
SHGs are particularly important in rural India because they combine:

Finance + Community + Livelihood + Empowerment

They can act as a bridge between rural households and:

- Banks
- Government programmes
- Markets
- Training institutions
- Insurance providers
- Pension systems
- Digital financial services

28. SHG Model in Diagram Form



29. SHG and the Financial System

SHGs connect the **informal/community level** with the **formal financial system**:

Households

↓

SHGs

↓

Banks / MFIs / Financial Institutions

↓

Formal Financial System

This makes SHGs an important **last-mile financial inclusion mechanism**.

30. Important Institutions Associated with SHGs

Institution	Role
NABARD	Pioneer of SHG–Bank Linkage Programme; development and capacity support
Commercial Banks	Savings accounts and credit linkage
RRBs	Rural banking and SHG credit
Cooperative Banks	Rural/community-based financial services
DAY-NRLM	Rural SHG mobilization and livelihood promotion
State Rural Livelihood Missions	Implementation at state level
MFIs	Microfinance services
NGOs	Group formation, training and capacity building
RBI	Banking and financial-sector regulatory framework

31. Current Scale of SHGs in India

The SHG movement has reached a very large scale.

According to NABARD's 2024–25 SHG-Bank Linkage Programme data, there were approximately **143.30 lakh savings-linked SHGs**, with around **173.80 lakh credit-linked SHGs** and outstanding bank loans of approximately **₹3.04 lakh crore** as of March 2025.

This demonstrates the enormous importance of SHGs within India's rural financial-inclusion ecosystem.

32. Most Important Exam Points

Remember these points:

Definition

SHG = a voluntary, self-managed group of people who save regularly, pool their savings, provide mutual financial assistance and undertake collective activities for socio-economic development.

Origin

NABARD pioneered the SHG–Bank Linkage Programme in 1992.

Core activities

Savings + Internal Lending + Bank Linkage

Major objective

Financial inclusion and socio-economic empowerment.

Major beneficiaries

Rural and low-income households, particularly women.

SHG hierarchy under DAY-NRLM

SHG → Village Organization → Cluster-Level Federation

Key distinction

SHG is a group/institutional model; microfinance is a broader financial-service concept.

Conclusion

Self-Help Groups are one of the most significant community-based financial-inclusion mechanisms in India. They combine **savings, internal lending, bank credit, livelihood development, financial literacy and collective empowerment**.

The Indian SHG model has evolved from a simple **small savings-and-credit group** into a broader platform for **women's empowerment, rural livelihoods, entrepreneurship, digital financial inclusion and poverty reduction**.

One-line summary

SHGs transform small individual savings into collective financial strength and connect economically weaker households with the formal banking and development system.

Module B: FINANCIAL INCLUSION AND ROLE OF BCAs
CHAPTER 13: BC/BF Model: A Vehicle for Financial Inclusion
13.1 Objectives
13.2 Introduction
13.3 Need for the BC/BF Model
13.4 Role and Responsibilities of Business Correspondents/ Business Facilitators
13.5 Who can be the Business Facilitators?
13.6 Who can be Business Correspondents?
13.7 Business Facilitators: Scope of Activities
13.8 Business Correspondents: Scope of Activities
13.9 Business Correspondent VS. Business Facilitator
13.10 Eligibility Criteria for Engaging Business Correspondents/Business Facilitators

Need for the BC/BF Model

The **Business Correspondent (BC) and Business Facilitator (BF) Model** is needed to extend banking services to **unbanked and underbanked people**, particularly in rural, remote and economically weaker areas where establishing and operating a full-fledged bank branch may not be feasible.

The model supports the RBI's broader objective of **financial inclusion and last-mile delivery of banking services**.

Major Reasons for the BC/BF Model

1. To reach the unbanked population

A large section of the population may live far from conventional bank branches. BCs and BFs help bring banking services closer to these people.

Bank → BC/BF → Customer

2. To provide last-mile banking

The model helps deliver banking services at the **last mile**, particularly in villages and remote locations.

Customers need not travel long distances to access basic banking services.

3. To expand banking geographically

Opening a full branch in every village can be expensive and operationally difficult.

The BC/BF model enables banks to expand their reach **without requiring a conventional branch at every location**.

4. To reduce the cost of banking

Using BCs can be more economical than establishing and maintaining a traditional branch in areas with low transaction volumes.

This makes it commercially more viable to serve low-income customers.

5. To promote financial inclusion

The model helps people access:

- Savings accounts
- Deposits
- Withdrawals
- Remittances
- Credit

- Insurance
- Pension
- Digital payments

Thus, it moves financial inclusion beyond merely opening bank accounts.

6. To provide affordable financial services

Low-income customers often require small-value transactions.
BCs can make such services available locally, reducing:

- Travel expenses
- Time costs
- Transaction barriers

7. To reduce dependence on informal lenders

Easy access to formal banking and credit can reduce dependence on:

- Moneylenders
- Informal borrowing
- Unregulated financial arrangements

This can help protect vulnerable borrowers from exploitative lending practices.

8. To promote savings

BC outlets can facilitate access to formal savings and deposit services.
This encourages people to move from:
Cash at home → Formal bank savings

9. To improve access to credit

The BC/BF network can assist banks in identifying potential borrowers and facilitating credit-related processes.
This is especially important for:

- Small farmers
- Agricultural workers
- Small traders
- Micro-enterprises
- Low-income households

10. To facilitate government benefit transfers

BC networks can help provide access to banking channels through which eligible beneficiaries receive government payments.
This supports the effective implementation of **Direct Benefit Transfer (DBT)** and other welfare-related payments.

11. To promote digital banking

Modern BCs can use:

- Micro-ATMs
- Smartphones
- Biometric devices
- PoS terminals
- Digital payment systems

This enables banking services even where conventional banking infrastructure is limited.

12. To improve rural banking

The model is particularly useful for rural areas where:

- Population density may be low.
- Customers may be geographically dispersed.
- Branch establishment may be expensive.
- Transaction volumes may initially be small.

13. To improve financial literacy

BCs and BFs can help create awareness about:

- Savings
- Loans
- Insurance
- Pension
- Digital payments
- Banking procedures
- Customer rights
- Fraud prevention

Thus, they act as an important **human interface between banks and customers**.

14. To support small businesses and micro-enterprises

BC/BF networks can help small entrepreneurs connect with formal financial institutions.
This supports:

- Self-employment
- Micro-enterprises
- Rural businesses
- Agricultural activities
- Livelihood development

15. To increase customer convenience

Customers can access certain banking services closer to their homes and workplaces.
This reduces:

- Travel time
- Transportation costs
- Waiting time
- Physical barriers to banking

16. To support women and vulnerable groups

The model can improve access to financial services for people who may face greater barriers to conventional banking, including:

- Women
- Low-income households
- Elderly people
- Rural residents

- Small farmers
- Micro-entrepreneurs

BC/BF Model: Need at a Glance

Need	Contribution of BC/BF Model
Banking the unbanked	Extends banking access
Last-mile delivery	Takes services closer to customers
Rural banking	Reaches remote villages
Cost reduction	Reduces cost of physical expansion
Financial inclusion	Brings underserved people into formal finance
Savings	Facilitates formal savings
Credit	Connects customers with formal credit
Digital banking	Enables technology-based transactions
Government benefits	Supports access to DBT payments
Financial literacy	Creates customer awareness
Small businesses	Facilitates access to financial services
Customer convenience	Reduces travel and time costs

BF vs BC — Why Both Are Needed

The two models address different requirements:

Business Facilitator (BF)

Primarily helps with **non-transactional facilitation**, such as:

Customer identification → Awareness → Product promotion → Loan application assistance → Financial literacy

Business Correspondent (BC)

Provides **specified banking services/transactions on behalf of the bank**, subject to applicable regulations and the bank's authorization:

Account services → Deposits → Withdrawals → Remittances → Other permitted transactions

Easy memory trick

BF = Facilitates the business

BC = Brings banking services to the customer

Overall Need

The BC/BF Model is necessary because **financial inclusion cannot be achieved merely by creating bank branches**. India needs a cost-effective system that can take banking services to customers wherever they live.

Financial Inclusion through BC/BF
Bank
↓
BC/BF Network
↓
Unbanked / Underserved Customer
↓
Savings + Payments + Credit + Insurance + Pension
↓
Financial Inclusion
↓
Economic Empowerment

Exam-oriented conclusion
The BC/BF Model is needed to achieve last-mile financial inclusion by extending affordable, accessible and convenient banking services to unbanked and underserved populations, particularly in rural and remote areas. It reduces geographical and cost barriers, promotes savings and formal credit, facilitates digital banking and government payments, and strengthens the connection between banks and financially excluded communities.
Role and Responsibilities of Business Correspondents / Business Facilitators
The **Business Correspondent (BC) and Business Facilitator (BF) model** enables banks to extend their reach beyond traditional branches, particularly to **unbanked and underserved customers**.
Although both work as intermediaries for banks, their roles are different:
BF = mainly facilitates banking business and customer acquisition
BC = provides specified banking services/transactions on behalf of the bank

1. Role of Business Facilitators (BFs)
A **Business Facilitator** performs mainly **non-transactional activities** to help banks acquire customers and expand financial services.
Major roles
1. Customer identification
- Identify potential customers in villages and underserved areas.
- Create awareness about banking services.

2. Promotion of banking products
BFs can promote awareness about:
- Savings accounts
- Deposits
- Loans

- Insurance
- Pension products
- Other permitted financial services

3. Loan facilitation

They may assist potential borrowers by:

- Explaining available credit products.
- Collecting preliminary information.
- Assisting with loan applications.
- Forwarding applications/documents to the bank.
- Helping customers understand basic loan requirements.

4. Financial literacy

BFs can educate customers about:

- Savings
- Credit
- Interest
- Insurance
- Pension
- Digital payments
- Banking procedures

5. SHG/JLG promotion

They may help promote and facilitate:

- Self-Help Groups (SHGs)
- Joint Liability Groups (JLGs)
- Other community-based financial groups

6. Follow-up

BFs may assist with follow-up relating to:

- Loan applications
- Customer documentation
- Financial products
- Repayment-related communication

7. Creating awareness of government schemes

They can inform eligible customers about relevant government financial-inclusion and livelihood programmes.

2. Responsibilities of Business Facilitators

A BF is expected to:

- Act according to the bank's instructions.
- Provide accurate information to customers.
- Avoid misleading customers.
- Maintain confidentiality of customer information.
- Protect customer documents and information.
- Follow applicable KYC/AML requirements when performing authorized functions.
- Maintain proper records.
- Refer final credit decisions to the bank.
- Avoid unauthorized collection of money.
- Follow the bank's customer-service and conduct requirements.

Important point
BFs generally do not perform cash transactions on behalf of the bank.

3. Role of Business Correspondents (BCs)
A **Business Correspondent** performs specified banking activities **on behalf of the bank**, subject to RBI regulations and the bank's authorization.
Major roles
1. Account opening
BCs can facilitate account opening and customer onboarding through authorized processes.
2. Cash deposits and withdrawals
An authorized BC outlet can facilitate specified:

- Cash deposits
- Cash withdrawals

This is particularly important in locations without conventional branches.
3. Remittance services
BCs can facilitate permitted domestic remittance and money-transfer services.
4. Small-value transactions
Technology-enabled BC outlets can provide certain small-value banking transactions.
5. Loan-related services
BCs may:

- Receive loan applications.
- Facilitate documentation.
- Disburse permitted loans through authorized processes.
- Facilitate repayment/collection.
- Follow up on loans.

6. Government payments
BCs can provide access to banking channels used for eligible government benefit payments and other permitted transactions.
7. Digital banking
BCs may use:

- Micro-ATMs
- Biometric devices
- Mobile devices
- PoS terminals
- Other authorized technology

to provide banking services.

4. Responsibilities of Business Correspondents
A. Customer service
BCs must provide services properly, courteously and transparently.
B. Transaction accuracy

They must ensure that:

- Correct amount is deposited/withdrawn.
- Transactions are properly recorded.
- Customers receive appropriate transaction confirmation/receipt.

C. Cash management

Where cash transactions are authorized, BCs must maintain adequate cash and follow the bank's cash-management procedures.

D. Customer authentication

BCs must follow the bank's prescribed customer-identification and authentication procedures.

E. KYC/AML compliance

They must follow applicable:

- KYC requirements
- Anti-Money Laundering (AML) requirements
- Customer identification procedures

F. Record keeping

BCs must maintain required transaction and customer records and make them available to the bank.

G. Customer confidentiality

Customer information must be kept confidential and used only for authorized purposes.

H. Fraud prevention

BCs must remain alert to:

- Identity fraud
- Fake transactions
- Impersonation
- Unauthorized withdrawals
- Digital fraud

and report suspicious activity according to the bank's procedures.

I. Grievance assistance

BCs should help customers understand how to raise complaints and access the bank's grievance-redressal mechanism.

5. Difference Between Role of BC and BF

Function	Business Facilitator	Business Correspondent
Customer identification	✓	✓
Product awareness	✓	✓
Financial literacy	✓	✓
Loan application assistance	✓	✓
SHG/JLG promotion	✓	✓
Account opening assistance	✓	✓
Cash deposit	Generally, No	✓, if authorized
Cash withdrawal	Generally, No	✓, if authorized
Remittance	Generally, no transactional role	✓, if authorized

Function	Business Facilitator	Business Correspondent
Transaction processing	No	✓, for permitted services
Micro-ATM services	Generally, No	✓
Collection/repayment services	Mainly facilitation	✓, if authorized

6. Responsibilities Towards the Bank

Both BCs and BFs have responsibilities toward the appointing bank.

They must:

1. Follow the bank's instructions and procedures.
2. Maintain proper records.
3. Protect customer information.
4. Follow applicable regulatory requirements.
5. Report suspicious transactions or irregularities.
6. Maintain professional conduct.
7. Avoid misrepresentation.
8. Assist the bank in customer service.
9. Cooperate with bank inspections and monitoring.
10. Report fraud, complaints and operational problems promptly.

7. Responsibilities Towards Customers

BCs/BFs act as the **customer-facing interface** of the bank, so customer protection is particularly important.

They should:

- Explain products accurately.
- Clearly communicate charges.
- Provide transaction confirmation/receipts where applicable.
- Maintain confidentiality.
- Avoid coercive practices.
- Avoid unauthorized fees.
- Help customers understand complaint procedures.
- Assist vulnerable and less financially literate customers.
- Protect customers from fraud and misuse of information.

8. BC/BF and Financial Inclusion

Their role can be represented as:

Bank

↓

BC/BF

↓

Rural / Remote Customer

↓

Account
↓
Savings + Payments
↓
Credit + Insurance + Pension
↓
Financial Inclusion
Thus, BCs and BFs act as a **bridge between formal financial institutions and financially excluded customers**.

9. Role in Rural Banking
BCs/BFs are especially important in rural areas because they:

- Reduce the distance between customers and banks.
- Reduce customers' travel expenses.
- Provide doorstep/nearby services.
- Increase awareness of financial products.
- Facilitate formal credit.
- Support government-benefit payments.
- Promote digital financial services.

10. Role of Technology
Technology has significantly strengthened the BC model.
Typical BC technology
Customer
↓
Biometric / OTP / Other authorized authentication
↓
Micro-ATM / Mobile / PoS Device
↓
Bank's Technology Platform
↓
Transaction
↓
Customer Confirmation
This allows banking services to be delivered even where a full branch is unavailable.

11. Limitations and Risks
BCs/BFs also face several challenges:

- Inadequate connectivity.
- Cash-management problems.
- Low transaction volumes.
- Cybersecurity risks.
- Fraud risks.
- Insufficient training.
- High employee/agent attrition.

- Customer complaints.
- Lack of financial literacy.
- Operational and reputational risks for banks.

Therefore, **effective supervision, training, technology, customer protection and adequate remuneration** are important for the sustainability of the model.

12. BC/BF as the Last-Mile Link

The most important role can be expressed as:

BC/BF = Last-mile link between the bank and financially excluded customer.

They help convert:

Financial Inclusion Policy → Actual Financial Service Delivery

Exam-Oriented Answer

Business Correspondents and Business Facilitators are intermediaries engaged by banks to extend banking and financial services, particularly to unbanked and underserved areas. Business Facilitators mainly perform non-transactional functions such as customer identification, product promotion, financial literacy, loan application assistance and SHG/JLG facilitation. Business Correspondents, subject to authorization, provide specified banking services such as account-related services, cash deposits and withdrawals, remittances and other permitted transactions. Both are responsible for following bank instructions, maintaining records, protecting customer information, complying with applicable KYC/AML requirements and ensuring proper customer service. They play a vital role in last-mile banking, rural financial inclusion and digital financial service delivery.

Easy memory formula

BF → Facilitation + Awareness + Loan Assistance

BC → Banking Transactions + Customer Service + Last-Mile Delivery

Who Can Be Business Facilitators (BFs) in India?

A **Business Facilitator (BF)** is an intermediary engaged by a bank to provide **non-transactional support** for extending banking and financial services, particularly to underserved customers.

Under the RBI framework, banks may engage eligible **individuals or entities** as Business Facilitators, subject to the applicable RBI directions and the bank's own due-diligence requirements.

Examples of entities/individuals that can act as BFs

1. **NGOs (Non-Governmental Organizations)**
2. **Self-Help Groups (SHGs)**
3. **Microfinance Institutions (MFIs)**
4. **Co-operative organizations**
5. **Community-based organizations**
6. **Societies**
7. **Trusts**
8. **Companies**
9. **Post Offices**

10. **Other suitable individuals or organizations** permitted by the applicable RBI framework and selected by the bank.

What can BFs do?

BFs can generally assist banks with **non-financial/ non-transactional activities**, such as:

- Identifying prospective customers.
- Creating awareness about banking products.
- Promoting savings and other financial products.
- Collecting and forwarding preliminary information/documents for loan applications.
- Assisting borrowers with loan applications.
- Promoting financial literacy.
- Facilitating SHG/JLG formation and bank linkage.
- Providing information about government-sponsored financial schemes.
-

Important: A BF generally **does not undertake cash transactions or handle banking transactions on behalf of the bank**. Those functions fall within the **Business Correspondent (BC)** model when specifically authorized.

BF vs BC — Quick distinction

Business Facilitator	Business Correspondent
Mainly **non-transactional**	Mainly **transactional + specified banking services**
Promotes/facilitates banking	Provides specified banking services on behalf of bank
Loan application assistance	Can undertake authorized loan-related services
Financial literacy	Customer service + transactions
Normally does not handle cash	Can handle cash where authorized

Exam point

Banks can engage suitable individuals and organizations as Business Facilitators to perform non-transactional activities such as customer identification, financial awareness, promotion of banking products and assistance in loan applications.

The exact eligibility and permissible categories can change with RBI's current regulatory framework, so for an exam based on the **latest RBI rules**, the current RBI directions should be followed.

Who Can Be Business Correspondents (BCs) in India?

A **Business Correspondent (BC)** is an agent engaged by a bank to provide **specified banking services on behalf of the bank**, particularly in areas where conventional bank branches are not easily accessible.

The RBI permits banks to appoint eligible individuals and entities as BCs, subject to the applicable regulatory conditions and the bank's due-diligence requirements.

Eligible Persons/Entities

The categories that can generally be engaged as BCs include:

1. **Individuals**
    - Individuals meeting the bank's eligibility and due-diligence requirements.
2. **NGOs (Non-Governmental Organizations)**
    - Particularly those working in rural development and financial inclusion.
3. **Microfinance Institutions (MFIs)**
    - Including eligible not-for-profit organizations and other permitted MFI structures.

4. **Co-operative Societies**
    - Eligible cooperative organizations can serve as BCs subject to applicable conditions.
5. **Community-based organizations**
6. **Self-Help Groups (SHGs)**
    - Eligible SHG-related organizations can support last-mile banking under the applicable framework.
7. **Companies**
    - Eligible companies can be appointed where permitted by RBI regulations.
8. **Post Offices**
    - Post offices can participate in last-mile financial service delivery arrangements.
9. **Other eligible entities**
    - Banks may appoint other entities permitted under the RBI framework, following appropriate due diligence.

Important RBI-Recognized BC Categories

The RBI's BC framework has evolved over time. Depending on the applicable directions, banks have been permitted to engage categories such as:

- **NGOs**
- **MFIs**
- **Co-operative societies**
- **Community-based organizations**
- **Individual shopkeepers**
- **Petrol pump owners**
- **Retired bank employees**
- **Retired teachers**
- **Retired government employees**
- **Other individuals/entities meeting prescribed requirements**

The precise list and conditions should always be read with the **current RBI directions**, because the permitted categories have been expanded and modified over time.

What Can a Business Correspondent Do?

A BC can perform **specified banking functions on behalf of the bank**, subject to authorization.

Major activities include:

- Facilitating account opening.
- Receiving and delivering cash within authorized limits.
- Facilitating deposits and withdrawals.
- Facilitating small-value remittances.
- Collecting loan applications.
- Facilitating loan disbursement where authorized.
- Collecting loan repayments.
- Facilitating government benefit payments.
- Providing other permitted banking services.
- Using technology such as micro-ATMs and biometric devices.

BC Eligibility — Important Requirements

Appointment as a BC is **not automatic merely because a person falls within an eligible category**.

The bank must undertake appropriate:

- **Due diligence**
- **Background verification**
- **Fit-and-proper assessment**
- **Training**
- **Monitoring**
- **Supervision**

The BC must also comply with the bank's operating procedures and applicable RBI requirements.

BC vs BF

Business Correspondent (BC)	**Business Facilitator (BF)**
Provides **specified banking services**	Provides mainly **facilitation services**
Can undertake authorized transactions	Generally, does not undertake banking transactions
Can facilitate cash deposits/withdrawals where authorized	Normally cannot handle cash transactions
Can facilitate remittances	Mainly creates awareness and facilitates
Can undertake specified collection/payment activities	Mainly non-transactional
Strong last-mile transaction role	Strong customer-acquisition/awareness role

Easy memory trick
BF = Facilitates banking business
BC = Brings banking services to the customer
Exam Answer
Business Correspondents are eligible individuals or organizations appointed by banks to provide specified banking services on behalf of the bank, particularly in unbanked and underserved areas. Depending on the applicable RBI framework, BCs may include individuals, NGOs, MFIs, cooperative organizations, community-based organizations, eligible companies and other permitted persons or entities. The bank must conduct due diligence and ensure appropriate training, supervision and compliance. BCs can facilitate specified services such as account opening, deposits, withdrawals, remittances, loan-related services and other authorized banking transactions.

Business Facilitators: Scope of Activities

A **Business Facilitator (BF)** is an intermediary engaged by a bank to support the **non-transactional aspects of banking and financial inclusion**. The BF helps the bank identify customers, create awareness, facilitate applications and connect underserved people with formal financial services.
Key principle: BFs facilitate banking business; they do not ordinarily conduct banking transactions or handle cash on behalf of the bank.

Scope of Activities of Business Facilitators
Under the RBI framework, banks may use BFs for the following activities:
1. Identification of Borrowers
BFs can:

- Identify potential customers and borrowers.

- Identify people who need banking and credit services.
- Help banks reach underserved communities.

Example: A BF identifies small farmers in a village who may require agricultural credit and introduces them to the bank.

2. Promotion of Banking Products

BFs can create awareness and promote appropriate banking products such as:

- Savings accounts
- Deposits
- Loans
- Insurance
- Pension products
- Remittance services
- Other financial products

The BF's role is to **inform and facilitate**, while the bank remains responsible for the actual financial product.

3. Collection of Preliminary Information

BFs can collect relevant preliminary information from prospective customers and borrowers.
For example:

- Basic customer details
- Information relating to occupation
- Information regarding income and livelihood
- Preliminary information required for a loan application

The information is then passed to the bank for appropriate processing.

4. Collection and Preliminary Processing of Loan Applications

BFs may:

- Distribute loan application forms.
- Help customers complete applications.
- Collect completed applications.
- Collect permitted supporting information/documents.
- Forward applications to the bank.

Important: The **final decision to sanction or reject a loan remains with the bank**.

5. Facilitating SHGs and JLGs

BFs can assist in:

- Identifying potential SHG members.
- Promoting Self-Help Groups.
- Facilitating formation of groups.
- Facilitating bank linkage.
- Promoting Joint Liability Groups (JLGs).

This is especially important for rural financial inclusion.

6. Financial Literacy and Awareness

BFs can educate potential customers about:

- Savings
- Credit
- Interest rates
- Insurance
- Pension
- Digital banking
- Banking procedures
- Government financial schemes
- Customer rights
- Fraud prevention

This helps customers make informed financial decisions.

7. Follow-up of Loan Applications

BFs may assist customers and the bank by following up on:

- Loan applications
- Missing information
- Documentation
- Application status

This can reduce communication barriers between customers and banks.

8. Post-Sanction Follow-up

Within the activities authorized by the bank, BFs may assist with:

- Communicating with borrowers.
- Following up on loan-related requirements.
- Providing information to customers.
- Supporting the bank's relationship with borrowers.

9. Promotion of Financial Inclusion

The overall role of a BF is to bring financially excluded people into the formal financial system.
The process can be represented as:
Identification → Awareness → Application → Bank Linkage → Financial Service

Activities Generally Outside the BF's Scope

The distinction between **BF and BC** is very important.
A BF generally **does not**:

- Accept cash deposits on behalf of the bank.
- Make cash payments or withdrawals.
- Conduct banking transactions.
- Collect cash repayments as a banking transaction.
- Independently sanction loans.
- Set interest rates.
- Make final credit decisions.

Such functions may fall within the **Business Correspondent (BC)** model when specifically authorized.

BF vs BC — Scope of Activities

Activity	BF	BC
Identify customers	✓	✓
Promote banking products	✓	✓
Financial literacy	✓	✓
Assist with loan applications	✓	✓
Facilitate SHGs/JLGs	✓	✓
Collect preliminary information	✓	✓
Cash deposits	✗	✓, if authorized
Cash withdrawals	✗	✓, if authorized
Cash collection	✗	✓, if authorized
Remittance transactions	✗ generally	✓, if authorized
Banking transactions	✗	✓, for permitted services
Final loan sanction	✗	✗ — bank decides

Importance of BF Activities

The BF model helps banks:

1. **Reach new customers**
2. **Identify potential borrowers**
3. **Reduce information gaps**
4. **Promote financial literacy**
5. **Increase awareness of financial products**
6. **Facilitate credit applications**
7. **Promote SHGs/JLGs**
8. **Extend financial services to rural and underserved communities**
9. **Reduce the cost of customer acquisition**
10. **Strengthen financial inclusion**

BF Scope — Easy Memory Formula

I – Identify customers

P – Promote products

C – Collect preliminary information
A – Assist loan applications
F – Financial literacy
G – Facilitate SHGs/JLGs
F – Follow up
BF = Identify + Promote + Collect + Assist + Educate + Facilitate + Follow-up

Exam-oriented answer
The scope of activities of Business Facilitators primarily consists of non-transactional activities such as identifying prospective customers, promoting banking and financial products, creating financial awareness, collecting preliminary information, assisting in loan applications, facilitating SHGs/JLGs and following up on applications. A BF acts as a link between the bank and prospective customers but does not ordinarily undertake cash or other banking transactions. Final decisions relating to loans and banking services remain with the bank.

Business Correspondents: Scope of Activities

A **Business Correspondent (BC)** is an agent appointed by a bank to provide **specified banking services on behalf of the bank**, especially in unbanked and underserved areas.
The BC model is an important instrument of **financial inclusion and last-mile banking**.
Key idea: BCs can perform specified banking/transactional activities, whereas Business Facilitators (BFs) mainly perform non-transactional facilitation activities.
1. Account-Related Services
A BC can, subject to the bank's authorization and applicable RBI requirements:

- Facilitate opening of bank accounts.
- Assist customers with account-related procedures.
- Provide basic account information.
- Facilitate permitted customer-service requests.

2. Cash Deposit and Withdrawal
One of the most important activities of BCs is facilitating **cash transactions**.
An authorized BC outlet can facilitate:

- Cash deposits
- Cash withdrawals
- Small-value transactions within applicable limits

This allows customers to access banking services without travelling to a branch.
Example: A customer in a village can withdraw money from a BC-operated micro-ATM instead of travelling 15 km to a bank branch.

3. Remittance Services
BCs can facilitate **domestic remittance and money-transfer services** as permitted by the bank and RBI framework.

This is particularly useful for:

- Migrant workers
- Rural households
- Small traders
- Families receiving money from other locations

4. Loan-Related Services

BCs may assist with specified credit-related activities, including:

- Receiving loan applications.
- Collecting required information/documents.
- Facilitating loan disbursement where authorized.
- Facilitating repayment/collection.
- Providing information to borrowers.
- Following up on loan accounts.

Important

The bank retains responsibility for credit decisions such as loan sanction.

A BC cannot independently decide to sanction a bank loan merely because it is acting as the bank's agent.

5. Collection of Loan Repayments

Where authorized, BCs can facilitate the collection of:

- Principal
- Interest
- Other permitted loan-related payments

This is especially useful where borrowers live far from bank branches.

6. Government Benefit Payments

BC outlets can facilitate access to banking channels through which eligible beneficiaries receive:

- Government pensions
- Subsidies
- Welfare payments
- Other government transfers

This supports **Direct Benefit Transfer (DBT)** and financial inclusion.

7. Small-Value Banking Transactions

BCs are particularly useful for **small-value, frequent transactions**.

Examples include:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statements
- Remittances
- Other permitted transactions

8. Micro-ATM Services

BCs can operate **micro-ATMs** and other authorized devices.

A typical transaction may involve:
Customer → BC → Authentication → Micro-ATM → Bank → Transaction Confirmation
Micro-ATMs can be particularly useful in rural and remote areas.

9. Biometric Banking
Where the relevant infrastructure and authorization are available, BCs may use **biometric authentication** to facilitate customer transactions.
This can make banking easier for customers who may have difficulty using conventional cards or PIN-based systems.

10. Digital Banking Services
BCs can use technology such as:
- Mobile devices
- Micro-ATMs
- PoS terminals
- Biometric devices
- Digital banking applications

to deliver authorized services.
This helps extend banking beyond traditional branches.

11. Financial Inclusion Services
BCs play a major role in bringing unbanked customers into the formal financial system.
They can help customers access:
- Savings
- Credit
- Payments
- Remittances
- Insurance
- Pension
- Government benefits

Thus:
BC → Last-Mile Access → Financial Inclusion

12. Customer Awareness and Financial Literacy
Although financial literacy is particularly associated with the BF function, BCs can also support customer awareness.
They may educate customers about:
- Banking services
- Digital payments
- Account usage
- Savings
- Loan repayment
- Insurance
- Pension
- Fraud prevention

- Customer grievance procedures

Scope of BC Activities — At a Glance

Activity	BC
Account-opening assistance	✓
Account-related services	✓, as authorized
Cash deposits	✓, as authorized
Cash withdrawals	✓, as authorized
Domestic remittances	✓, as authorized
Loan application collection	✓
Loan-related facilitation	✓
Loan repayment collection	✓, as authorized
Government benefit payments	✓, through authorized channels
Micro-ATM transactions	✓
Biometric transactions	✓, where applicable
Digital banking services	✓
Financial awareness	✓
Final loan sanction	**No — bank decides**
Setting bank's interest rate	**No**

BC and BF — Scope Difference

This is an important examination distinction.

Business Facilitator

Mainly performs:

Non-transactional activities

- Customer identification
- Product promotion
- Financial awareness
- Loan application assistance
- Preliminary information collection
- SHG/JLG facilitation

Business Correspondent

Performs:

Specified banking and transactional activities

- Account-related services
- Cash deposits/withdrawals
- Remittances
- Loan-related services
- Collection of permitted payments
- Micro-ATM transactions
- Other authorized banking services

Easy memory trick
BF = Facilitation
BC = Banking Transactions + Facilitation

Responsibilities While Performing BC Activities

A BC must operate according to the bank's instructions and applicable regulatory requirements.
Important responsibilities include:

1. Customer identification
Follow prescribed identification and authentication procedures.

2. Accurate transactions
Ensure the correct amount is deposited, withdrawn or transferred.

3. Receipts/confirmation
Provide appropriate transaction confirmation to customers.

4. Record keeping
Maintain required records and transaction details.

5. KYC/AML compliance
Follow applicable KYC and anti-money-laundering requirements.

6. Confidentiality
Protect customer information.

7. Fraud prevention
Remain alert to fraudulent transactions and report irregularities.

8. Customer protection
Clearly communicate applicable charges and procedures.

9. Grievance assistance
Help customers access the bank's complaint and grievance-redressal mechanism.

Importance of BCs in Financial Inclusion

The BC model solves a major problem:

Traditional system
Customer → Long Distance → Bank Branch
BC system
Customer → Nearby BC → Banking Service

Therefore, BCs:

- Reduce geographical barriers.
- Reduce travel costs.

- Improve banking access.
- Increase financial inclusion.
- Promote digital transactions.
- Facilitate formal credit.
- Support government payments.
- Help integrate rural customers into the formal financial system.

Exam-Oriented Answer

Business Correspondents are agents appointed by banks to provide specified banking services on behalf of the bank, particularly in unbanked and underserved areas. Their scope of activities includes account-related services, cash deposits and withdrawals, domestic remittances, loan-related services, collection of permitted repayments, government-benefit payments, micro-ATM and technology-based banking services, subject to the bank's authorization and applicable RBI regulations. BCs act as the last-mile link between banks and customers. However, important decisions such as final loan sanction remain with the bank.

One-line answer

Business Correspondent = a bank's authorized last-mile service agent who provides specified banking transactions and services to customers, especially in areas where conventional branches are limited.

Business Correspondent (BC) vs. Business Facilitator (BF)

Both **Business Correspondents (BCs)** and **Business Facilitators (BFs)** are mechanisms through which banks extend their reach to **unbanked and underserved customers**, especially in rural and remote areas.

The fundamental difference is:

BF = mainly non-transactional facilitation

BC = specified banking/transactional services on behalf of the bank

Detailed Comparison

Basis	Business Facilitator (BF)	Business Correspondent (BC)
Meaning	An intermediary who facilitates banking business	An agent who provides specified banking services on behalf of a bank
Main purpose	Customer identification, awareness and facilitation	Last-mile delivery of specified banking services
Nature of activities	Mainly **non-transactional**	Mainly **transactional + service-related**
Cash handling	❌ Generally not permitted	✅ Permitted where specifically authorized
Cash deposits	❌ No	✅ Yes, if authorized
Cash withdrawals	❌ No	✅ Yes, if authorized
Remittance	Generally, no transactional role	✅ Can facilitate permitted remittances
Loan applications	✅ Can assist	✅ Can assist
Loan sanction	❌ No	❌ No — bank decides
Loan repayment collection	Generally facilitation only	✅ Can undertake permitted collection
Customer identification	✅ Yes	✅ Yes
Product promotion	✅ Major role	✅ May also promote
Financial literacy	✅ Important role	✅ Can support
SHG/JLG facilitation	✅ Yes	✅ May facilitate
Micro-ATM	Generally ❌	✅ Can operate where authorized
Biometric transactions	Generally ❌	✅ Where applicable
Technology-based transactions	Limited	Major role
Relationship with bank	Facilitates bank's business	Acts as authorized banking agent
Customer interface	Yes	Yes
Last-mile transaction delivery	Limited	**Major role**

1. Business Facilitator (BF)

The BF primarily helps the bank **find, educate and connect customers**.

Major activities

- Identifying prospective customers
- Promoting banking products
- Creating financial awareness
- Collecting preliminary information
- Assisting with loan applications
- Facilitating SHGs and JLGs
- Supporting financial literacy
- Following up on applications

Example

A BF visits a village and tells farmers about an agricultural loan, helps them understand the requirements and assists them in preparing their applications.

The bank ultimately processes and decides the loan.

2. Business Correspondent (BC)

The BC goes a step further by providing **specified banking services and transactions on behalf of the bank**, subject to authorization.

Major activities

- Account-related services
- Cash deposits
- Cash withdrawals
- Domestic remittances
- Loan-related services
- Collection of permitted repayments
- Government-benefit payment services
- Micro-ATM transactions
- Biometric banking
- Other authorized banking services

Example

A customer in a village visits a BC with a micro-ATM and withdraws money from their bank account using an authorized authentication mechanism.

3. Key Difference

BF

Customer → BF → Bank

The BF mainly **facilitates** the customer's connection with the bank.

BC

Customer → BC → Bank

The BC can **deliver specified banking services/transactions** on behalf of the bank.

4. Easy Memory Trick

Remember:

BF = Facilitate

F = Facilitation

- Find customers
- Facilitate applications
- Financial awareness
- Facilitate SHGs/JLGs

BC = Banking Correspondence
C = Customer transactions

- Cash
- Credit-related services
- Collections
- Customer banking services

5. Role in Financial Inclusion
Both models support:
Bank
↓
BC/BF
↓
Unbanked / Underserved Customer
↓
Savings + Credit + Payments + Insurance + Pension
↓
Financial Inclusion
The **BF** primarily helps overcome the **awareness and access barrier**, while the **BC** helps overcome the **physical and transactional delivery barrier**.

6. Exam-Oriented Difference
A Business Facilitator performs mainly non-transactional activities such as identifying customers, promoting banking products, creating financial awareness, assisting in loan applications and facilitating SHGs/JLGs. A Business Correspondent, on the other hand, is authorized to provide specified banking services on behalf of a bank, including permitted cash deposits and withdrawals, remittances, loan-related services and other transactions. Thus, the BF primarily facilitates banking business, whereas the BC provides last-mile banking services and transactions.

In one sentence:
BF connects customers to banking; BC brings specified banking services to customers.
Eligibility Criteria for Engaging Business Correspondents / Business Facilitators
The **Business Correspondent (BC) and Business Facilitator (BF) model** allows banks to use eligible persons or organizations as intermediaries for extending banking services, particularly to **unbanked and underserved areas**.
A useful distinction is:
BF → mainly non-transactional facilitation
BC → specified banking services/transactions on behalf of the bank
The eligibility of BCs/BFs is governed by the **RBI's applicable regulatory framework**, along with the appointing bank's own due-diligence and risk-management requirements.

1. Eligibility for Business Correspondents (BCs)

Banks may engage suitable individuals or entities as BCs, subject to applicable RBI requirements.

A. Individuals

Eligible individuals can include persons selected by the bank who satisfy its:

- Fit-and-proper requirements
- Background verification
- Due-diligence requirements
- Training requirements
- Other regulatory conditions

Examples historically permitted under RBI's BC framework include:

- Retired bank employees
- Retired teachers
- Retired government employees
- Individual owners of certain local establishments
- Other suitable individuals meeting prescribed conditions

B. NGOs and Community-Based Organizations

Banks may engage eligible:

- NGOs
- Community-based organizations
- Societies
- Trusts

These can be particularly useful for reaching rural and financially excluded communities.

C. Microfinance Institutions

Eligible MFIs can act as BCs, subject to the applicable RBI framework.

They can provide banks with access to customers who are already familiar with small-value financial services.

D. Co-operative Organizations

Eligible cooperative organizations may be engaged as BCs, subject to applicable conditions.

E. Companies

Banks may engage eligible companies as BCs were permitted under the applicable regulatory framework.

F. Other Permitted Entities

The RBI framework permits banks to use other eligible persons/entities as BCs depending on the applicable regulations.

Important: Eligibility is not automatic. The bank must conduct appropriate due diligence before appointment.

2. Eligibility for Business Facilitators (BFs)

Banks may engage suitable individuals and organizations as BFs for **non-transactional activities**.

Eligible categories can include:

- NGOs
- Community-based organizations
- Societies
- Trusts

- Self-Help Group-related organizations
- MFIs
- Cooperative organizations
- Individuals
- Other suitable organizations permitted under the applicable framework

The bank must ensure that the BF is capable of performing the assigned activities properly.

3. Common Eligibility Requirements

Regardless of whether the intermediary is a BC or BF, the bank should consider several factors.

1. Reputation and integrity

The person/entity should have a **good reputation and satisfactory record**.

2. Due Diligence

The bank should conduct appropriate due diligence before appointment.

This may include verification of:

- Identity
- Address
- Background
- Financial standing
- Past activities
- Criminal/legal history, where relevant
- Reputation

3. Fit-and-Proper Criteria

The intermediary should satisfy the bank's applicable **fit-and-proper** requirements.

The objective is to ensure that the person/entity is trustworthy and suitable to represent the bank.

4. Adequate Training

BCs/BFs should receive appropriate training regarding:

- Banking products
- Customer service
- KYC requirements
- AML requirements
- Digital transactions
- Customer protection
- Fraud prevention
- Grievance procedures

5. Technological Capability

For BCs performing technology-enabled transactions, they should have access to appropriate:

- Devices
- Connectivity
- Authentication systems
- Transaction platforms
- Security arrangements

6. Financial and Operational Capacity

The bank should ensure that the intermediary has adequate capability to perform its responsibilities.

For BCs handling authorized cash transactions, appropriate **cash-management and operational arrangements** are particularly important.

7. Ability to Reach the Target Population

The intermediary should ideally have:

- Local presence
- Knowledge of the community
- Ability to communicate with customers
- Accessibility to rural/underserved populations

This is particularly important for financial inclusion.

8. Compliance Capability

BCs/BFs must be capable of following:

- RBI regulations
- Bank policies
- KYC requirements
- AML/CFT requirements
- Customer-protection requirements
- Data confidentiality requirements

4. Special Requirements for BCs

Because BCs may conduct specified banking transactions, they generally require stronger operational controls than BFs.

The bank should ensure:

A. Proper authorization

The BC must perform **only those activities authorized by the bank**.

B. Transaction controls

There should be proper systems for:

- Customer authentication
- Transaction recording
- Receipts/confirmation
- Cash management
- Reconciliation

C. Supervision

The bank must monitor BC activities and ensure compliance.

D. Customer protection

Customers should be informed about:

- Applicable charges
- Transaction details
- Complaint mechanisms
- Bank contact details

5. Important Restrictions

A BC/BF **does not become a bank merely by being appointed by a bank**.

They:

- Cannot independently operate as a bank.
- Cannot make final loan-sanction decisions on behalf of the bank unless specifically permitted within the bank's delegated framework.
- Cannot undertake activities outside their authorization.
- Must follow the bank's instructions and applicable regulations.

The **bank remains responsible for the banking relationship and oversight of the BC/BF arrangement**.

6. BC/BF Appointment Process

A simplified process is:

Bank identifies need
↓
Identifies potential BC/BF
↓
Due diligence & background verification
↓
Eligibility/fit-and-proper assessment
↓
Agreement with bank
↓
Training
↓
Technology & operational setup
↓
Authorization
↓
Monitoring & supervision

7. BC vs BF — Eligibility and Role

Point	**Business Facilitator**	**Business Correspondent**
Main function	Non-transactional facilitation	Specified banking services
Customer identification	✓	✓
Product promotion	✓	✓
Financial literacy	✓	✓
Loan application assistance	✓	✓
Cash transactions	Generally no	✓, if authorized
Remittances	Generally no transactional role	✓, if authorized
Micro-ATM	Generally no	✓, where authorized
Operational controls	Required	More extensive due to transactions
Bank supervision	Required	Required

8. Key Exam Point

The eligibility list for BCs has **evolved over time**, so older textbooks may contain a narrower or different list of eligible categories. For a current answer, it is safer to state that **banks may engage eligible individuals and entities permitted under the prevailing RBI framework, after appropriate due diligence, training and authorization**, rather than relying exclusively on an old historical list.

Exam-Oriented Answer

Banks may engage eligible individuals and entities as Business Correspondents and Business Facilitators for extending banking services to unbanked and underserved areas. Eligible persons/entities may include suitable individuals, NGOs, community-based organizations, societies, trusts, MFIs, cooperative organizations, companies and other categories permitted under the prevailing RBI framework. Before appointment, banks are required to undertake appropriate due diligence and assess the intermediary's integrity, suitability, operational capability and compliance capacity. BCs performing banking transactions require appropriate authorization, training, technology, transaction controls and supervision. Both BCs and BFs must follow the bank's instructions, applicable RBI regulations, KYC/AML requirements and customer-protection standards.

Memory formula

Eligibility = Suitable Person/Entity + Due Diligence + Fit & Proper + Training + Capability + Authorization + Supervision

Authorization for BC/BF

Authorization for Business Correspondents (BCs) and Business Facilitators (BFs) means the formal permission given by a **bank to an eligible individual or entity to perform specified activities on the bank's behalf**, subject to RBI regulations and the bank's internal policies.

The important principle is:

A BC/BF can perform only those activities for which the bank has authorized it.

1. Who Gives the Authorization?

The **bank appoints and authorizes the BC/BF**.

The RBI generally provides the regulatory framework under which banks can engage BCs/BFs; it is **not normally the case that every individual BC/BF obtains a separate RBI license**.

The appointing bank remains responsible for proper oversight of the arrangement.

2. Authorization Process

A typical process is:

Identification of Potential BC/BF

↓

Due Diligence

↓

Eligibility & Fit-and-Proper Assessment

↓

Background Verification

↓

Agreement with Bank

↓

Training
↓
Technology/Infrastructure Setup
↓
Bank's Authorization
↓
Commencement of Activities
↓
Continuous Monitoring

3. Due Diligence Before Authorization
Before appointing a BC/BF, the bank should conduct appropriate due diligence.
This may cover:

- Identity verification
- Address verification
- Background checks
- Reputation
- Financial soundness, where relevant
- Experience and capability
- Integrity
- Legal/regulatory compliance
- Technological capability, where required

The objective is to ensure that the intermediary is **trustworthy and capable of representing the bank**.

4. Written Agreement
The relationship between the bank and BC/BF should be governed by an appropriate **written agreement/contract**.
The agreement should clearly specify:

- Activities permitted
- Duties and responsibilities
- Service standards
- Customer-protection requirements
- Fees/remuneration
- Confidentiality requirements
- Record-keeping requirements
- Audit/inspection rights
- Monitoring requirements
- Liability and accountability
- Termination conditions

5. Scope of Authorization for BF
A BF is generally authorized for **non-transactional activities**.
These may include:

- Identifying prospective customers
- Promoting banking products

- Creating financial awareness
- Collecting preliminary information
- Assisting with loan applications
- Facilitating SHGs/JLGs
- Supporting financial-literacy activities
- Following up on applications

Important restriction

A BF generally **cannot accept deposits, make cash withdrawals or conduct banking transactions on behalf of the bank** merely because it is a BF.

6. Scope of Authorization for BC

A BC can be authorized to provide **specified banking services**, such as:

- Account-related services
- Cash deposits
- Cash withdrawals
- Remittances
- Loan-related services
- Collection of permitted repayments
- Government-benefit payment services
- Micro-ATM transactions
- Other permitted banking services

The exact activities depend on:

RBI regulations + Bank's authorization + Written agreement

7. Technology Authorization

Where a BC uses technology, the bank must ensure that the appropriate systems and controls are in place.
These may include:

- Micro-ATMs
- PoS devices
- Biometric devices
- Mobile devices
- Secure authentication
- Digital transaction systems

The BC should not independently introduce an unauthorized technology or transaction method.

8. Customer Protection

Authorization also requires the bank to ensure adequate customer-protection arrangements.
BCs/BFs should:

- Give accurate information.
- Disclose applicable charges.
- Protect customer information.
- Provide transaction confirmation where applicable.
- Follow KYC requirements.
- Follow AML requirements.
- Help customers access grievance mechanisms.

- Avoid unauthorized charges or practices.

9. Supervision After Authorization
Authorization is **not a one-time process**.
Banks are expected to continuously monitor BC/BF activities.
Monitoring may include:

- Periodic inspections
- Transaction monitoring
- Reconciliation
- Audit
- Customer complaints
- Fraud monitoring
- Performance review
- Compliance review
- Surprise inspections, where appropriate

10. Bank's Responsibility
An important examination point is that **outsourcing an activity to a BC/BF does not mean that the bank can completely transfer its responsibility**.
The bank must have appropriate:

- Oversight
- Internal controls
- Monitoring
- Risk management
- Customer-protection mechanisms
- Grievance-redressal arrangements

The BC/BF acts as an **agent/intermediary**, while the bank continues to have responsibility for the banking relationship and regulatory compliance.

11. Withdrawal/Termination of Authorization
The bank may terminate the BC/BF arrangement if the intermediary:

- Violates the agreement.
- Engages in fraud.
- Misuses customer information.
- Performs unauthorized activities.
- Fails to comply with regulatory requirements.
- Provides poor or unsafe customer service.
- Fails to meet prescribed standards.

The bank should have appropriate procedures for **termination and transition of customer services**.

12. BC/BF Authorization — Difference

Aspect	**BF**	**BC**
Authorization by	Bank	Bank
Main role	Non-transactional	Specified banking services

Aspect	BF	BC
Cash handling	Generally, not authorized	May be authorized
Deposits	No	Yes, if authorized
Withdrawals	No	Yes, if authorized
Remittances	Generally, no transactional role	Yes, if authorized
Loan application assistance	Yes	Yes
Final loan sanction	No	No — bank retains decision-making responsibility
Financial literacy	Yes	Yes
Micro-ATM	Generally, no	Yes, where authorized
Monitoring	Bank	Bank

13. Important Principle

The authorization should be **specific and clearly defined**.

For example:

A BC authorized to facilitate cash withdrawals cannot automatically assume that it is authorized to provide every other banking service.

Similarly:

A BF authorized to facilitate loan applications cannot independently sanction loans or conduct cash transactions.

Exam-Oriented Answer

Authorization of BCs/BFs is the process by which a bank formally appoints an eligible individual or entity to perform specified activities on its behalf under the applicable RBI framework. The bank conducts due diligence, assesses suitability and capability, enters into a written agreement, provides necessary training and authorizes the specific activities to be performed. BFs are generally authorized for non-transactional activities, while BCs may be authorized to perform specified banking transactions such as cash deposits, withdrawals, remittances and other permitted services. The bank must continuously monitor the BC/BF, maintain appropriate controls, ensure customer protection and compliance, and take corrective or termination action where necessary.

Easy formula

Eligibility → Due Diligence → Agreement → Training → Authorization → Operations → Monitoring → Review/Termination

Powers of Business Correspondents (BCs) / Business Facilitators (BFs)

The **powers of BCs and BFs are delegated powers**. They do not become independent banks by virtue of their appointment. They can exercise **only those powers/functions specifically assigned and authorized by the bank**, within the RBI regulatory framework.

Key principle: BC/BF acts on behalf of the bank; the bank retains control and responsibility.

1. Powers of Business Facilitators (BFs)

BFs primarily have **facilitation powers**, rather than transactional banking powers.

A. Customer Identification

BFs may identify potential:

- Bank customers
- Borrowers
- Small entrepreneurs
- SHGs/JLGs
- Other financially underserved persons

B. Product Promotion

They can explain and promote suitable banking products such as:

- Savings accounts
- Deposits
- Loans
- Insurance
- Pension
- Other permitted financial products

C. Loan Facilitation

BFs may:

- Distribute loan application forms.
- Assist customers in completing applications.
- Collect preliminary information.
- Forward applications to the bank.
- Facilitate communication between borrower and bank.

They do not have independent authority to sanction loans.

D. Financial Education

BFs can educate customers regarding:

- Savings
- Credit
- Interest
- Insurance
- Pension
- Digital payments
- Banking procedures

E. SHG/JLG Facilitation

They may facilitate:

- Formation of SHGs
- Formation of JLGs
- Bank linkage
- Credit awareness

F. Follow-up

They can assist in following up on applications and other non-transactional customer matters.

2. Powers of Business Correspondents (BCs)

BCs can have broader delegated powers because they may perform **specified banking transactions**.

Subject to the bank's authorization and applicable RBI requirements, BCs may have authority to:

A. Facilitate Account Opening

They can assist customers with opening accounts through authorized procedures.

B. Accept Deposits

An authorized BC can facilitate **cash deposits** into customers' bank accounts within the applicable framework.

C. Facilitate Withdrawals

BCs can facilitate **cash withdrawals** from customers' accounts.

D. Facilitate Remittances

They may provide permitted domestic remittance services.

E. Facilitate Loan Transactions

Depending on the authority delegated by the bank, BCs may:

- Receive loan applications.
- Facilitate documentation.
- Facilitate disbursement.
- Collect authorized loan repayments.

F. Government Payment Services

BCs may facilitate eligible government-benefit payments through authorized banking channels.

G. Micro-ATM Transactions

BCs may operate **micro-ATMs** and other authorized devices to provide banking services.

H. Digital/Biometric Transactions

Where authorized, BCs may use:

- Biometric authentication
- PoS devices
- Mobile devices
- Micro-ATMs
- Other approved technologies

3. Powers That BCs/BFs Do NOT Have

This is very important.

BCs/BFs **do not have the powers of a bank itself**.

They generally cannot independently:

❌ **Issue their own banking products**

They cannot create and offer bank accounts or deposits in their own name.

❌ **Independently sanction bank loans**

The **bank retains the credit decision**, subject to its delegated authority framework.

❌ **Set bank interest rates**

They cannot independently determine the bank's lending or deposit rates.

❌ **Change bank policies**

They must follow the bank's policies and instructions.

❌ **Conduct unauthorized transactions**

They cannot undertake activities outside their authorization.

❌ **Operate as an independent bank**

A BC/BF is an **agent/intermediary**, not a bank.

4. BC vs BF — Powers

Power/Function	BF	BC
Identify customers	✓	✓
Promote banking products	✓	✓
Financial literacy	✓	✓
Assist loan applications	✓	✓
Facilitate SHGs/JLGs	✓	✓
Collect preliminary information	✓	✓
Accept cash deposits	❌	✓, if authorized
Facilitate cash withdrawals	❌	✓, if authorized
Remittance transactions	❌ generally	✓, if authorized
Loan repayment collection	Generally facilitation	✓, if authorized
Micro-ATM transactions	Generally ❌	✓, if authorized
Biometric banking	Generally ❌	✓, where authorized
Final loan sanction	❌	❌ — bank retains decision
Set interest rates	❌	❌
Change bank policies	❌	❌

5. Nature of BC/BF Powers

The powers can be understood under **three principles**:

1. Delegated

The bank gives the BC/BF authority to perform specified activities.

2. Limited

The intermediary can perform **only authorized functions**.

3. Supervised

The bank must have appropriate systems for monitoring and controlling the intermediary.

6. Responsibility Accompanying the Power

Every power given to a BC/BF comes with corresponding responsibilities.

For example:

Power to facilitate cash withdrawal

→ Verify customer/authentication
→ Process correct transaction
→ Maintain records
→ Give confirmation/receipt
→ Protect customer information
→ Follow bank procedures.

Similarly:

Power to facilitate loan applications

→ Collect accurate information
→ Protect documents
→ Follow KYC procedures
→ Forward information to bank
→ **Bank makes the final credit decision.**

7. Why BC/BF Powers are Limited

The limitation of powers is necessary to protect:

- Customers
- Depositors
- Borrowers
- The bank
- The financial system

It reduces the risk of:

- Fraud
- Misappropriation
- Unauthorized lending
- Customer exploitation
- Money laundering
- Data misuse
- Operational risk

8. Simple Diagram
Business Facilitator
Bank
↓
BF
↓
Identify + Promote + Educate + Facilitate
↓
Customer
Business Correspondent
Bank
↓
BC
↓
Specified Banking Services/Transactions
↓
Customer

Exam-Oriented Answer
The powers of Business Correspondents and Business Facilitators are delegated and limited powers granted by the bank under the applicable RBI framework. Business Facilitators mainly have powers to identify customers, promote financial products, provide financial awareness, assist with loan applications and facilitate SHGs/JLGs. Business Correspondents have broader authority to provide specified banking services, including authorized cash deposits and withdrawals, remittances, loan-related services, repayment collection and technology-based transactions. However, BCs/BFs are not banks and cannot independently create banking products, change bank policies, set interest rates or make final credit decisions unless specifically delegated within the bank's authorized framework. All activities remain subject to bank supervision, applicable regulations and customer-protection requirements.

One-line memory rule
BF = Facilitation powers; BC = Specified transactional banking powers; Bank = Ultimate authority and responsibility.

BC/BF Model as a Vehicle for Financial Inclusion

The **Business Correspondent (BC) / Business Facilitator (BF) Model** is an important **vehicle for financial inclusion** because it enables banks to extend financial services to people who are **unbanked, underbanked, geographically isolated or economically disadvantaged**.
It acts as a **bridge between the formal banking system and the last-mile customer**.
Bank Branches + BC/BF Network + Technology → Last-Mile Financial Services → Financial Inclusion

1. Why is the BC/BF Model Needed?
A conventional branch-based banking system faces difficulties in serving every village and remote location because:

- Bank branches are expensive to establish and operate.
- Customers may live far from branches.
- Rural populations may be geographically dispersed.
- Small-value transactions may not make a full branch commercially viable.
- Customers may have limited financial literacy.
- Poor connectivity and infrastructure can create access barriers.

The BC/BF model addresses these problems by bringing banking **closer to the customer**.

2. BC/BF as a Bridge to the Formal Financial System
The model connects:
Unbanked Customer
↓
BC/BF
↓
Bank
↓
Formal Financial Services
This allows people who were previously dependent on cash, informal lenders or informal savings arrangements to become part of the formal financial system.

3. Role of Business Facilitators
BFS primarily help overcome the **information and awareness barrier**.
They can:

- Identify potential customers.
- Promote banking products.
- Create financial awareness.
- Assist with loan applications.
- Collect preliminary information.
- Facilitate SHGs/JLGs.
- Support financial literacy.
- Help customers understand available financial services.

Thus:

BF = Bringing customers into the banking relationship.

4. Role of Business Correspondents
BCs primarily help overcome the **transaction and physical-access barrier**.
Subject to authorization, they can facilitate:

- Account-related services
- Cash deposits
- Cash withdrawals
- Remittances
- Loan-related services
- Repayment collection
- Government-benefit payments
- Micro-ATM transactions
- Other permitted banking services

Thus: **BC = Bringing banking services to the customer.**

5. How the Model Promotes Financial Inclusion
A. Banking the Unbanked
BC/BF networks enable banks to reach customers who do not have convenient access to traditional branches.
This helps expand:

- Bank accounts
- Savings
- Payments
- Credit
- Insurance
- Pension services

B. Last-Mile Delivery
One of the biggest contributions of the model is **last-mile delivery**.
Traditional model
Customer → Travel → Bank Branch
BC model
Customer → Nearby BC → Bank Service
This reduces the physical distance between the customer and the banking system.

C. Reducing Cost of Banking
Establishing a full branch in every location may be expensive.
BCs allow banks to reach more customers through a relatively lower-cost delivery mechanism.
This makes it more feasible to serve:

- Low-income customers
- Rural households
- Small farmers
- Micro-enterprises
- Small traders

6. Promoting Savings

BCs can facilitate access to formal banking services, encouraging people to move from:

Cash at Home → Formal Bank Account

Regular savings can help households:

- Build financial assets.
- Meet emergencies.
- Plan future expenditure.
- Develop financial discipline.

7. Improving Access to Credit

BC/BF networks can help identify prospective borrowers and facilitate loan applications.

This can improve access to formal credit for:

- Farmers
- Small businesses
- Micro-enterprises
- Self-employed persons
- Low-income households

It can reduce excessive dependence on informal moneylenders.

8. Promoting Digital Financial Inclusion

Technology has made the BC model particularly powerful.

BCs can use:

- Micro-ATMs
- Biometric devices
- Smartphones
- PoS machines
- Mobile connectivity
- Digital payment systems

Thus: **BC + Technology = Digital Last-Mile Banking**

9. Facilitating Government Benefits

BC networks can help beneficiaries access banking channels through which eligible government payments are delivered.

This supports:

- Direct Benefit Transfer (DBT)
- Pensions
- Subsidies
- Scholarships
- Other government payments

This creates a direct connection between:

Government → Bank Account → Beneficiary

10. Promoting Financial Literacy

BCs and BFs can act as local sources of financial information.

They can explain:

- Savings
- Credit
- Insurance
- Pension
- Digital payments
- Interest rates
- Banking procedures
- Fraud prevention
- Customer rights

Financial inclusion therefore becomes not only **access**, but also **understanding and effective usage**.

11. Supporting SHGs and JLGs

BC/BF networks can facilitate:

- Self-Help Groups
- Joint Liability Groups
- Bank linkage
- Credit access
- Financial awareness

This is particularly important for:

- Rural women
- Small farmers
- Micro-entrepreneurs
- Low-income communities

12. Supporting Women

The model can improve women's access to:

- Bank accounts
- Savings
- Credit
- Insurance
- Pension
- Digital payments

When combined with SHGs, BC/BF networks can contribute to **women's economic empowerment**.

13. Supporting Rural Development

BC/BF services can help rural customers obtain financial resources for:

- Agriculture
- Dairy
- Poultry
- Fisheries
- Small shops
- Handicrafts
- Small manufacturing
- Service businesses

Thus, financial inclusion can contribute to **rural livelihood development**.

14. Reducing Dependence on Informal Finance

Before having convenient access to formal banking, financially excluded households may depend heavily on:

- Moneylenders
- Friends and relatives
- Informal savings arrangements
- Other unregulated sources

The BC/BF model provides a connection to formal financial institutions.

Result

Informal Finance → Formal Finance

This can improve financial security, although formal credit must still be provided responsibly.

15. BC/BF Model and the Financial Inclusion Chain

The model can be represented as:

Identification of Unbanked Person
↓
BF Creates Awareness
↓
Account Opening
↓
BC Provides Last-Mile Banking Access
↓
Savings + Payments
↓
Formal Credit
↓
Insurance + Pension
↓
Financial Literacy
↓
Financial Security
↓
Economic Empowerment

16. Advantages of BC/BF Model

Area	**Contribution**
Access	Takes banking closer to customers
Geographical reach	Reaches remote villages
Cost	Reduces need for full branches everywhere
Savings	Encourages formal savings
Credit	Facilitates formal credit access
Payments	Enables convenient transactions

Area	Contribution
Digital banking	Supports technology-enabled banking
Government benefits	Facilitates access to DBT
Financial literacy	Creates awareness
Women's empowerment	Improves access to finance
Rural development	Supports livelihoods
Financial inclusion	Integrates underserved customers into formal finance

17. Challenges of the BC/BF Model

The model is not free from problems.

1. Connectivity

Poor internet/mobile connectivity can interrupt transactions.

2. Cash management

BCs handling cash require appropriate cash-management arrangements.

3. Financial viability

Low transaction volumes may make it difficult for some BC outlets to remain commercially viable.

4. Training

BCs/BFs need adequate training in banking, KYC, customer service and fraud prevention.

5. Cybersecurity

Digital BC transactions can face:

- Fraud
- Phishing
- Identity theft
- Device-related risks

6. Customer awareness

Customers may not understand digital banking procedures.

7. Service quality

Poor service at the BC outlet can undermine customer trust.

8. Monitoring

Banks need effective supervision, audit and transaction monitoring.

9. Customer protection

Customers must be protected against:

- Unauthorized charges
- Misappropriation
- Fraud
- Misleading information

18. Conditions for Success

For the BC/BF model to work effectively, the following are important:

1. Adequate infrastructure

Reliable connectivity and technology.

2. Proper training
BCs/BFs should understand banking procedures and customer protection.
3. Sustainable remuneration
BCs need adequate economic incentives.
4. Strong bank supervision
Banks must monitor BC/BF activities.
5. Customer awareness
Customers need financial and digital literacy.
6. Cybersecurity
Strong authentication and fraud-prevention systems are necessary.
7. Grievance redressal
Customers must have easy access to complaint mechanisms.
8. Appropriate products
Financial products must meet the actual needs of low-income customers.

19. BC/BF Model vs Traditional Branch Banking

Traditional Branch Model	BC/BF Model
Customer travels to branch	Banking comes closer to customer
High infrastructure cost	Relatively lower-cost outreach
Limited geographical coverage	Wider last-mile reach
Fixed location	More flexible access points
Mainly branch-based	Agent + technology based
Less suitable for remote villages	Particularly useful for underserved areas

20. BC/BF as a Vehicle — Conceptual Model

The complete mechanism:
BANK
↓
BC/BF NETWORK
↓
UNBANKED / UNDERBANKED CUSTOMER
↓
ACCOUNT + SAVINGS + PAYMENTS
↓
CREDIT + INSURANCE + PENSION
↓
FINANCIAL LITERACY + CUSTOMER PROTECTION
↓
FINANCIAL INCLUSION
↓
ECONOMIC & SOCIAL EMPOWERMENT

21. Most Important Examination Points

Remember these five points:

1. BC/BF is a last-mile delivery mechanism.

2. BF mainly performs non-transactional activities.

3. BC can perform specified banking transactions/services when authorized.

4. Technology makes the BC model more effective through micro-ATMs, biometric devices and digital banking.

5. The ultimate objective is not merely account opening but meaningful use of financial services.

Exam-Oriented Answer

The BC/BF Model is an important vehicle for financial inclusion because it enables banks to extend financial services to unbanked and underserved populations, particularly in rural and remote areas. Business Facilitators primarily perform non-transactional activities such as customer identification, product promotion, financial literacy and assistance in loan applications, while Business Correspondents provide specified banking services and transactions on behalf of banks, including authorized cash deposits, withdrawals, remittances and other permitted services. The model reduces geographical and cost barriers, promotes savings and formal credit, facilitates digital banking and government payments, and supports SHGs, rural livelihoods and women's empowerment. With appropriate technology, training, supervision, cybersecurity and customer protection, the BC/BF model serves as an effective last-mile instrument for achieving inclusive banking.

One-line conclusion

The BC/BF Model converts the objective of “banking for all” into practical last-mile access to formal financial services.

Module B: FINANCIAL INCLUSION AND ROLE OF BCAs
CHAPTER 14: Risk and Fraud Management
14.1 Objectives
14.2 Introduction
14.3 Risk and fraud from the perspective of BCAs
14.4 Risk and Fraud Management
14.5 Do's and Don'ts for BC/BF including ethical practices to be followed while sourcing asset and liability products.

Assuming **"BCAs" means Business Correspondent Agents (BCs/BC agents)**, risk and fraud are important because BCAs operate as the **last-mile interface between banks and customers**. They often handle customer authentication, cash, transaction devices and sensitive information.

Risk and Fraud from the Perspective of BCAs

1. Meaning of Risk

Risk is the possibility of financial loss, operational failure, regulatory violation, reputational damage or harm to customers arising from the activities of a Business Correspondent Agent.

Major risks include:

- Operational risk
- Cash risk
- Credit risk
- Fraud risk
- Cybersecurity risk
- Compliance risk
- Reputational risk
- Liquidity risk
- Technology risk

2. Major Risks Faced by BCAs

A. Operational Risk

Operational risk arises from failures in people, processes, systems or technology.

Examples

- Wrong transaction entry
- Failure to reconcile transactions

- Incorrect customer identification
- Loss of transaction records
- Device malfunction
- Poor record keeping
- Human error

Impact

- Customer complaints
- Financial losses
- Transaction disputes
- Loss of confidence in the bank

3. Cash Risk

Where BCAs are authorized to handle cash, they face significant cash-management risks.

Examples

- Cash theft
- Shortage of cash
- Fake currency
- Incorrect cash payment
- Misappropriation of customer deposits
- Cash held beyond permitted limits

Prevention

- Daily reconciliation
- Proper cash records
- Transaction receipts
- Cash limits
- Surprise inspections
- Adequate security arrangements

4. Fraud Risk

Fraud involves intentional deception or dishonest conduct for obtaining an unlawful financial benefit or causing financial loss.

Fraud may be committed:

- By the BCA
- By customers
- By outsiders
- Through collusion between a BCA and another person

5. Common Frauds Involving BCAs

1. Non-credit of customer deposits

A customer gives cash to the BCA, but the amount is not properly credited to the customer's account.

Prevention:

Immediate transaction confirmation and reconciliation.

2. Fake transaction receipts

A fraudulent or altered receipt may be given to a customer.

Prevention:

- System-generated receipts
- SMS/app confirmation
- Customer verification of transaction status

3. Biometric misuse

An unauthorized person may attempt to use another person's authentication credentials or exploit weaknesses in biometric processes.

Prevention:

- Proper customer verification
- Secure authentication
- Transaction alerts
- Strict device controls

4. OTP/PIN fraud

Fraudsters may trick customers into revealing:

- OTPs
- PINs
- Passwords
- Card information

A BCA must **never ask customers to disclose confidential authentication information unnecessarily**.

5. Identity theft

A fraudster may impersonate a genuine customer to obtain banking services or withdraw money.

Prevention:

- Proper authentication
- KYC compliance
- Verification of customer identity

6. Account manipulation

Fraudsters may attempt to change:

- Mobile numbers
- Customer details
- Beneficiary details
- Other account information

without legitimate authority.

7. Ghost/fictitious customers

Fake identities or fictitious accounts may be created to misuse banking facilities.
This can create significant **KYC/AML and regulatory risks**.

8. Unauthorized charges

A BCA may improperly charge customers amounts beyond authorized fees.
Prevention: Clear display and communication of applicable charges.

6. Cybersecurity Risk

Technology has made BC banking more efficient but also introduces cyber risks.

Major cyber threats

- Phishing
- Malware
- Fake applications
- Device compromise
- Password theft
- OTP scams
- Social engineering
- Data theft
- Unauthorized access

BCAs must therefore maintain strong device and information-security practices.

7. KYC and AML Risk

BCAs may assist with customer onboarding and transactions, so failure to follow applicable **Know Your Customer (KYC)** and **Anti-Money Laundering (AML)** procedures can expose the bank and intermediary to significant risk.

Potential problems include:

- Inadequate customer identification
- False documents
- Suspicious transactions
- Multiple accounts
- Structuring transactions
- Money-mule accounts
- Unusual cash movements

Prevention

Proper KYC + Customer Due Diligence + Transaction Monitoring + Reporting

8. Customer Data and Privacy Risk

BCAs may have access to sensitive customer information.

Examples include:

- Account details
- Identity information
- Mobile numbers
- Transaction history
- Biometric/authentication information

Improper disclosure or misuse can result in:

- Identity theft
- Financial fraud
- Privacy violations
- Reputational damage

Therefore, customer information must be kept **confidential and secure**.

9. Technology Risk

BCAs depend heavily on:

- Micro-ATMs
- Mobile devices
- Biometric devices
- PoS terminals
- Internet/mobile connectivity
- Banking applications

Problems can arise from:

- Network failure
- Device failure
- Software errors
- Power failure
- Server downtime
- Authentication failure

This can result in **failed or disputed transactions**.

10. Reputational Risk

Customers often see the BCA as the **face of the bank**.
Poor conduct by a BCA can therefore damage the bank's reputation.
Examples:

- Rude behaviour
- Delayed payments
- Unauthorized fees
- Misleading customers
- Poor grievance handling
- Fraud

Thus:
BCA misconduct can become a bank-level reputational problem.

11. Compliance Risk

BCAs must follow:

- Bank policies
- RBI requirements applicable to the activity
- KYC/AML requirements
- Customer-protection standards
- Data-security requirements
- Record-keeping requirements

Failure to comply may lead to:

- Customer losses
- Regulatory action
- Contract termination
- Financial penalties where applicable
- Reputational damage

12. Risk from the Customer's Perspective

Customers using BC services may face:

Financial risk
Loss of money through fraud or error.
Information risk
Misuse of personal information.
Transaction risk
Transaction failure or incorrect credit/debit.
Access risk
Inability to access services because of connectivity or technical failure.
Consumer-protection risk
Unauthorized fees or misleading information.

13. Risk-Control Measures for BCAs
A. Strong Customer Authentication
Use appropriate authorized authentication mechanisms.
B. Transaction Receipts
Customers should receive appropriate confirmation of transactions.
C. SMS/Digital Alerts
Customers should verify transactions through bank-generated alerts or other official channels.
D. Daily Reconciliation
BCAs should reconcile:
Cash in hand = Recorded cash transactions
E. Secure Devices
Banking devices should be protected from unauthorized access.
F. Password Security
Passwords, PINs and authentication credentials should never be shared.
G. Customer Awareness
Customers should be warned:
Never share OTP, PIN, password or confidential banking credentials with anyone.
H. Regular Monitoring
Banks should conduct:

- Audits
- Inspections
- Transaction monitoring
- Exception reporting
- Surprise checks

I. Complaint Mechanism
Customers should have easy access to the bank's grievance-redressal system.

14. Responsibility of the BCA in Preventing Fraud
A BCA should:

1. Verify the customer's identity properly.
2. Follow authorized transaction procedures.
3. Never conduct unauthorized transactions.
4. Maintain accurate records.
5. Issue appropriate transaction confirmation.

6. Protect customer information.
7. Never misuse customer credentials.
8. Maintain cash securely.
9. Reconcile transactions regularly.
10. Report suspicious transactions or fraud immediately.
11. Follow KYC/AML procedures.
12. Educate customers about digital fraud.
13. Cooperate with bank audits and investigations.
14. Follow all instructions issued by the bank.

15. Fraud Prevention Cycle

Customer Identification
↓
Authentication
↓
Authorized Transaction
↓
Transaction Confirmation
↓
Record Keeping
↓
Reconciliation
↓
Monitoring
↓
Fraud Detection
↓
Immediate Reporting & Corrective Action

16. BCAs as a High-Risk Touchpoint

The BCA model provides enormous benefits for financial inclusion, but the BCA is also a **critical control point** because the agent is physically close to the customer.
Therefore, banks need:
Selection → Training → Authorization → Technology Controls → Monitoring → Audit → Customer Protection

17. Important Risk–Fraud Table

Risk/Fraud	Example	Preventive Measure
Cash fraud	Misappropriation of customer cash	Reconciliation & cash controls
Identity fraud	Impersonating customer	Strong authentication
OTP fraud	Obtaining customer's OTP	Customer awareness
Receipt fraud	Fake transaction receipt	System-generated confirmation
Deposit fraud	Cash received but not credited	Immediate transaction verification
Biometric misuse	Unauthorized authentication	Secure authentication controls

Risk/Fraud	Example	Preventive Measure
Cyber fraud	Device/application compromise	Cybersecurity controls
KYC fraud	Fake identity/documents	Proper KYC
AML risk	Suspicious transactions	Transaction monitoring
Data theft	Misuse of customer information	Access control & confidentiality
Unauthorized charges	Excess fee charged	Transparent fee disclosure
Operational error	Wrong amount entered	Maker/checks, confirmation & reconciliation

18. Most Important Examination Points

Remember:

1. BCAs are the last-mile banking interface.
2. Cash handling creates significant operational and fraud risks.
3. Technology creates both opportunities and cybersecurity risks.
4. KYC/AML compliance is essential.
5. Customer authentication and transaction confirmation are critical controls.
6. Regular reconciliation helps detect cash and transaction fraud.
7. Banks must monitor and supervise their BC arrangements.
8. Customer awareness is an important fraud-prevention tool.

Exam-Oriented Answer

Business Correspondent Agents face operational, cash, fraud, cyber, technology, KYC/AML, compliance, privacy and reputational risks because they operate as the last-mile interface between banks and customers. Common frauds include non-credit of deposits, cash misappropriation, identity fraud, unauthorized transactions, fake receipts, misuse of authentication mechanisms, OTP fraud and unauthorized charges. These risks can be controlled through proper selection and training of BCAs, customer authentication, secure technology, transaction receipts and alerts, cash reconciliation, KYC/AML compliance, data confidentiality, transaction monitoring, audits, customer awareness and effective grievance redressal. The BCA must perform only authorized activities and immediately report suspicious transactions, errors and fraud to the bank.

One-line conclusion

The success of the BC model depends not only on expanding access to banking but also on ensuring that last-mile banking is safe, transparent, compliant and fraud-resistant.

Risk and Fraud Management in Banking

1. What is Risk?

Risk is the **possibility or uncertainty of an event occurring that may result in financial loss, operational disruption, legal/regulatory problems, reputational damage or other adverse consequences**.

In banking, risk cannot be completely eliminated. The objective is to **identify, assess, control, monitor and reduce risk to an acceptable level**.

Simple definition

Risk is the possibility that something may go wrong and cause loss or harm.

Example

A bank gives a loan to a customer. There is a possibility that the customer may not repay the loan.
That possibility is **credit risk**.

Importantly, the customer not repaying may be due to genuine business failure or other circumstances—it does **not automatically mean fraud**.

2. What is Fraud?

Fraud is a **deliberate act of deception, concealment or manipulation intended to obtain an unauthorized benefit or cause wrongful loss to another person or institution**.

Simple definition

Fraud is intentional wrongdoing or deception for financial or other unlawful gain or to cause wrongful loss.

Example

A person deliberately submits forged documents to obtain a bank loan.
That is **fraud**, because the deception is intentional.

3. Risk vs Fraud — Main Difference

Basis	**Risk**	**Fraud**
Meaning	Possibility of loss/adverse outcome	Intentional deception/wrongdoing
Intention	May exist without any intention	**Intentional**
Cause	Internal or external event, uncertainty, error, failure	Deliberate dishonest action
Example	Borrower cannot repay due to business failure	Borrower submits fake documents deliberately
Nature	Potential event/loss	Actual or attempted dishonest act
Can be accidental?	Yes	Fraud is inherently intentional
Management	Risk identification and control	Prevention, detection, investigation and response
Objective	Reduce probability/impact of loss	Prevent/detect/respond to intentional wrongdoing

Easy distinction

Risk = possibility of loss

Fraud = intentional deception causing or attempting to cause wrongful gain/loss

4. Relationship Between Risk and Fraud

Fraud is one of the **sources of risk** faced by banks.
For example:

Fraudulent transaction
↓
Financial Loss
↓
Operational Risk + Legal Risk + Reputational Risk

Therefore:

All fraud creates risk, but not all risk is fraud.

This is a very important examination point.

5. What is Risk Management?

Risk Management is the systematic process of:

Identifying → Assessing → Controlling → Monitoring → Reporting

risks faced by a bank.

Its objective is to ensure that risks are maintained within acceptable levels while the bank achieves its business objectives.

6. Risk Management Process

Step 1 – Risk Identification

Identify possible risks.

For example:

- Loan default
- Cyberattack
- Cash shortage
- System failure
- Interest-rate movement

Step 2 – Risk Assessment

Determine:

- Probability of occurrence
- Potential financial impact
- Severity
- Vulnerability

Step 3 – Risk Measurement

Quantify or evaluate the risk where possible.

Step 4 – Risk Treatment

The bank can:

- Avoid the risk
- Reduce the risk
- Transfer/share the risk
- Accept the risk within approved limits

Step 5 – Monitoring

Continuously monitor risk indicators.

Step 6 – Reporting

Report significant risks to appropriate management and governance bodies.

7. Major Types of Banking Risk

A. Credit Risk

The possibility that a borrower will fail to meet financial obligations.

Example: Customer defaults on a loan.

B. Market Risk

Risk of loss because of changes in market variables such as:

- Interest rates
- Foreign exchange rates
- Securities prices

C. Liquidity Risk
Risk that a bank cannot meet its financial obligations when they become due without unacceptable losses.

D. Operational Risk
Risk resulting from inadequate or failed:

- Processes
- People
- Systems

or from external events.
Example: Banking system failure causes incorrect transactions.

E. Cyber/Technology Risk
Risk arising from:

- Cyberattacks
- Malware
- Data breaches
- System vulnerabilities
- Technology failures

F. Compliance/Legal Risk
Risk arising from failure to comply with:

- Laws
- Regulations
- RBI requirements
- Internal policies

G. Reputational Risk
Risk that negative events damage public confidence in the bank.

H. Strategic Risk
Risk arising from poor business decisions, ineffective strategies or failure to adapt to changing conditions.

8. What is Fraud Management?
Fraud Management is the organised process of **preventing, detecting, investigating, reporting and responding to fraudulent activities**.
It is narrower than overall risk management.
Fraud Management Cycle
Prevention
↓
Detection
↓
Investigation
↓
Reporting

↓
Recovery/Corrective Action
↓
Lessons Learned
↓
Strengthening Controls

9. Fraud Prevention
The first objective is to prevent fraud before it occurs.
Important preventive controls
1. Strong KYC
Proper customer identification reduces identity-related fraud.
2. Customer Due Diligence
Understand the customer and the nature of expected transactions.
3. Segregation of Duties
No single employee should control an entire sensitive transaction process.
Example:
Employee A → Initiates transaction
Employee B → Authorises transaction
4. Access Controls
Employees should have access only to systems and information required for their jobs.
5. Strong Authentication
Use appropriate authentication mechanisms.
6. Transaction Limits
Set appropriate limits for transactions.
7. Maker–Checker Controls
One person enters/initiates a transaction and another verifies it.
8. Employee Training
Employees and BCAs should be trained to recognise fraud indicators.
9. Customer Awareness
Customers should be warned against:

- OTP scams
- Phishing
- Fake calls
- Fake links
- Impersonation

10. Fraud Detection
Banks use several methods to detect suspicious activity.
A. Transaction monitoring
Identify unusual transactions.
B. Exception reports
Generate alerts for transactions outside normal parameters.
C. Data analytics
Analyse transaction patterns to identify anomalies.

D. Internal audit
Regular audits can identify weaknesses and suspicious activities.
E. Whistle-blower mechanisms
Employees can report suspected misconduct.
F. Customer complaints
Customer complaints can provide early warning of fraud.

11. Fraud Investigation
When fraud is suspected, the bank may:

1. Preserve relevant records.
2. Restrict or secure affected accounts where legally/procedurally appropriate.
3. Analyse transaction trails.
4. Identify persons involved.
5. Determine the nature and extent of loss.
6. Conduct internal investigation.
7. Report to appropriate authorities/regulators where required.
8. Initiate recovery and corrective action.

12. Fraud Response and Recovery
After identifying fraud, the bank should:

- Stop further loss.
- Secure systems/accounts.
- Notify relevant stakeholders as required.
- Report the incident through prescribed channels.
- Attempt recovery of funds.
- Take disciplinary/legal action where appropriate.
- Strengthen internal controls.

13. Risk Management vs Fraud Management

Risk Management	**Fraud Management**
Broad concept	Narrower/specialised area
Covers all major banking risks	Specifically addresses fraud
Credit, market, liquidity, operational, cyber, etc.	Fraud prevention, detection and response
Focuses on uncertainty and potential losses	Focuses on intentional deception/wrongdoing
Preventive and ongoing	Preventive + detective + investigative + corrective
Enterprise-wide	Often integrated into operational risk/internal control framework

14. Risk and Fraud Management in BC/BF Operations
This is particularly important for **Business Correspondents (BCs) and Business Facilitators (BFs)** because they operate close to customers and may use technology and, in the case of authorized BC activities, handle cash.
Major BC-related risks

- Cash risk
- Operational risk
- Cyber risk
- KYC risk
- AML risk
- Identity risk
- Technology risk
- Reputational risk

Possible frauds

- Misappropriation of customer cash
- Fake transaction receipts
- Identity impersonation
- Unauthorized transactions
- Misuse of customer credentials
- Unauthorized charges
- Manipulation of records

Controls

Proper selection → Training → Authorization → Authentication → Transaction confirmation → Reconciliation → Monitoring → Audit

15. Three Lines of Defence

Banks commonly organise risk and control responsibilities through a **three-lines model**.

First Line — Business/Operations

Employees and BCAs performing day-to-day activities are responsible for following controls and identifying risks.

Second Line — Risk/Compliance

Risk-management and compliance functions establish frameworks, policies and monitoring.

Third Line — Internal Audit

Internal audit provides independent assurance regarding the effectiveness of controls and risk management.

16. Risk Management Framework

A simple banking risk-management framework is:

Risk Identification
↓
Risk Assessment
↓
Risk Measurement
↓
Risk Control/Mitigation
↓
Monitoring
↓
Reporting
↓
Review & Improvement

17. Fraud Management Framework

A fraud-management framework is:

Prevent
↓
Detect
↓
Investigate
↓
Report
↓
Recover
↓
Correct
↓
Prevent Recurrence

18. Difference Between Error and Fraud

This is another important distinction.

Error	Fraud
Usually accidental/unintentional	Intentional
May result from negligence or mistake	Involves deliberate deception
Example: ₹10,000 entered instead of ₹1,000 by mistake	Employee deliberately changes ₹1,000 to ₹10,000
Corrective action	Investigation + corrective/legal action as appropriate

Thus:

Error ≠ Fraud

But repeated or deliberately concealed "errors" may require investigation to determine whether fraud is involved.

19. Examples

Example 1 — Risk, not fraud

A farmer takes a genuine loan but suffers crop failure and cannot repay.

Result: Credit risk.

There is no fraud merely because the borrower defaulted.

Example 2 — Fraud

A borrower deliberately submits forged income documents to obtain a loan.

Result: Fraud + credit/operational/legal risk.

Example 3 — Operational risk

A bank's server fails and a legitimate transaction is not processed correctly.

Result: Operational/technology risk, not necessarily fraud.

Example 4 — BC fraud

A customer gives cash to an authorized BC for deposit, but the BC deliberately keeps the money and falsely claims that the transaction was completed.
Result: Fraud.

20. Key Principles of Effective Risk and Fraud Management
1. Prevention is better than recovery
Strong controls should prevent fraud before it occurs.
2. Early detection reduces losses
The sooner suspicious activity is identified, the smaller the potential loss.
3. Continuous monitoring
Risk and fraud cannot be managed through one-time checks.
4. Technology + human oversight
Technology can detect unusual patterns, but human investigation remains important.
5. Strong internal controls
Segregation of duties, authorization, reconciliation and audit are essential.
6. Customer awareness
Customers are an important part of the fraud-prevention system.

21. Summary Table

Concept	Meaning	Example
Risk	Possibility of loss/adverse outcome	Borrower may default
Fraud	Intentional deception	Fake documents used for loan
Risk Management	Identifying and controlling risks	Credit-risk assessment
Fraud Management	Preventing, detecting and responding to fraud	Transaction monitoring
Error	Unintentional mistake	Wrong amount entered
Cyber Risk	Risk from cyber/technology threats	Malware attack
Operational Risk	Risk from failed processes, people, systems or external events	System failure
Credit Risk	Risk of borrower default	Loan becomes NPA
Liquidity Risk	Inability to meet obligations when due	Insufficient liquid funds

Exam-Oriented Conclusion
Risk is the possibility of loss or an adverse outcome arising from uncertainty, whereas fraud is an intentional act of deception designed to obtain wrongful gain or cause wrongful loss. Risk management is the broader process of identifying, assessing, mitigating, monitoring and reporting different types of banking risks. Fraud management is a specialised component involving prevention, detection, investigation, reporting, recovery and corrective action against fraudulent activities. Effective banking risk and fraud management requires strong internal controls, KYC/AML procedures, segregation of duties, secure technology, transaction monitoring, reconciliation, audit, employee and BC training, customer awareness and effective grievance mechanisms.
Golden rule for exams
Risk may occur without wrongdoing; fraud requires intentional deception.

Do's and Don'ts for BC/BF

Including Ethical Practices While Sourcing Asset and Liability Products

Business Correspondents (BCs) and Business Facilitators (BFs) are the **front-line representatives/intermediaries of banks**. Their conduct directly affects customer trust, financial inclusion, and the reputation of the bank.

While sourcing **asset products** such as loans and **liability products** such as savings/deposit accounts, BCs/BFs must follow the principles of **fairness, transparency, suitability, confidentiality, compliance and customer protection**.

1. Meaning of Asset and Liability Products

Asset Products

These are products through which the bank creates assets by providing finance to customers.

Examples:

- Home loans
- Personal loans
- Agricultural loans
- MSME loans
- Vehicle loans
- Education loans
- Working-capital finance
- Microfinance loans

Liability Products

These are products through which the bank mobilises funds from customers.

Examples:

- Savings accounts
- Current accounts
- Fixed deposits
- Recurring deposits
- Other permitted deposit products

BC/BF's role

Customer identification → Product explanation → Application → Bank processing → Customer service

The BC/BF must **not misrepresent a product merely to achieve a sales target**.

2. General Do's for BC/BF

A. Follow RBI and Bank Guidelines

- Follow all applicable RBI regulations.
- Follow the bank's policies and procedures.
- Perform only authorized activities.
- Maintain required records.
- Cooperate with inspections and audits.

B. Be Honest and Transparent

Always provide **true, complete and understandable information**.

Explain:

- Product features
- Eligibility

- Interest rate
- Fees and charges
- Tenure
- Repayment requirements
- Important terms and conditions
- Risks and limitations

Do not hide important information.

C. Identify the Customer Properly

Follow applicable:

- KYC requirements
- Customer identification procedures
- AML requirements

Never open an account or process a financial transaction using false or incomplete customer information.

D. Understand the Customer's Needs

Before recommending a product, understand:

- Customer's financial needs
- Income and occupation
- Purpose of borrowing/saving
- Repayment capacity
- Existing financial obligations

The objective should be **need-based selling**, not merely target-based selling.

3. Do's While Sourcing Asset Products

For loans and other credit products, the BC/BF should:

1. Explain the loan properly

Tell the customer:

- Loan amount
- Interest rate
- Tenure
- Repayment schedule
- Processing fees
- Other applicable charges
- Security/collateral requirements, if applicable
- Consequences of delayed repayment

2. Assess suitability

The customer should be directed toward a loan that is appropriate for their needs and repayment capacity.

3. Collect accurate information

Loan applications must contain **genuine and accurate information**.

4. Explain repayment obligations

The customer must understand:

Principal + Interest + Applicable Charges = Repayment Obligation

5. Avoid over-indebtedness

Particularly in microfinance and small-credit segments, existing indebtedness and repayment capacity are important.

6. Submit applications honestly

Do not alter or manipulate customer information to increase the probability of loan approval.

7. Explain that sanction is by the bank

A BC/BF should not falsely promise:

"Your loan is guaranteed."

The final credit decision belongs to the bank under its applicable credit policy and delegated authority framework.

4. Don’ts While Sourcing Asset Products

❌ **Do not promise guaranteed loan approval**

❌ **Do not fabricate income or business information**

❌ **Do not create fake documents**

❌ **Do not encourage customers to conceal existing loans**

❌ **Do not encourage customers to borrow beyond their repayment capacity**

❌ **Do not charge unauthorized fees**

❌ **Do not misrepresent interest rates**

❌ **Do not conceal processing or other applicable charges**

❌ **Do not discriminate unfairly among eligible customers**

❌ **Do not force a customer to purchase an unrelated product as a condition for a loan unless such linkage is legitimately required and permitted**

5. Do’s While Sourcing Liability Products

For savings and deposit products, BCs/BFs should:

1. Explain the account clearly

Tell customers about:

- Type of account
- Minimum balance requirements, if any
- Applicable charges
- Interest, where applicable
- Withdrawal conditions
- Account-related facilities
- Nomination facility
- Dormancy/inoperative-account implications where relevant

2. Help with proper documentation

Ensure that account-opening information is:

- Complete
- Accurate
- Genuine

3. Explain applicable charges

Customers should understand relevant fees before using the service.

4. Encourage appropriate savings

Customers should be guided toward products suitable for their financial needs.

5. Explain deposit maturity
For fixed/term deposits, customers should understand:

- Tenure
- Interest
- Maturity
- Premature withdrawal conditions
- Applicable penalties/charges, if any

6. Don’ts While Sourcing Liability Products
❌ **Do not open accounts without proper customer consent**
❌ **Do not forge signatures or documents**
❌ **Do not misuse customer identity documents**
❌ **Do not misrepresent interest rates**
❌ **Do not hide charges**
❌ **Do not use customer accounts for your own transactions**
❌ **Do not retain customer credentials unnecessarily**
❌ **Do not access customer accounts without authorization**
❌ **Do not create fictitious or unauthorized accounts**
❌ **Do not force customers to buy unnecessary products**

7. Ethical Practices for BC/BF
1. Customer First
The customer's legitimate interest should be given priority over personal sales targets.
Customer need > Sales target

2. Fair and Honest Dealing
Treat all customers:

- Fairly
- Respectfully
- Without discrimination
- Without exploitation

3. Transparency
All important product information should be communicated clearly.
Avoid:

- Half-truths
- Misleading statements
- Hidden charges
- False promises

4. Suitability
Recommend products based on the customer's actual needs and capacity.
Example

A customer with irregular income should not be pushed into an unsuitable financial commitment merely because the BC wants to achieve a sales target.

5. Informed Consent
Customers should understand what they are signing up for.
Explain → Clarify doubts → Obtain consent → Process

6. Confidentiality
Protect:

- Account details
- Identity information
- Transaction information
- Mobile numbers
- Financial information
- Documents
- Authentication information

Never disclose customer information without proper authority.

7. No Misuse of Customer Credentials
BC/BFs must never improperly obtain or misuse:

- PINs
- Passwords
- OTPs
- Authentication credentials

Customers should be advised not to share such confidential credentials.

8. No Unauthorized Fees
A BC/BF should charge **only authorized fees**, where applicable.
Never demand:
"Extra payment for getting your loan approved."

9. No Coercion
Customers should not be forced into buying financial products.
The customer should be free to make an informed decision, subject to legitimate product terms and regulatory requirements.

8. Ethical Sourcing of Asset Products
Correct approach
Identify need
↓
Understand customer profile
↓
Explain suitable products
↓
Explain costs & risks

↓
Assess affordability/repayment capacity
↓
Obtain informed consent
↓
Submit genuine information
↓
Bank makes decision
Incorrect approach
Sales Target
↓
Pressure Customer
↓
Hide Charges
↓
Manipulate Information
↓
Promise Approval
↓
Push Loan

The second approach is unethical and creates significant customer, compliance and reputational risks.

9. Ethical Sourcing of Liability Products

Correct approach
Understand customer's savings need
↓
Explain account/deposit options
↓
Explain interest & charges
↓
Explain conditions
↓
Obtain consent
↓
Complete KYC
↓
Open account properly

10. Do’s and Don’ts — Quick Table

Do’s	Don’ts
Follow bank/RBI requirements	Don't violate regulations
Explain products clearly	Don't mislead
Verify customer identity	Don't use false identity
Obtain customer consent	Don't force products

Do's	Don'ts
Disclose charges	Don't hide fees
Explain interest rates	Don't misrepresent rates
Assess suitability	Don't encourage unsuitable borrowing
Maintain confidentiality	Don't disclose customer data
Give transaction confirmation	Don't conceal transactions
Maintain records	Don't manipulate records
Report suspicious activity	Don't ignore fraud
Help with grievances	Don't discourage complaints
Perform only authorized functions	Don't exceed authority
Treat customers fairly	Don't discriminate or exploit

11. Ethical Practices Specifically for BCs/BFs

A. No target-driven mis-selling

Sales targets should never become a reason for:

- Unnecessary loans
- Unnecessary accounts
- Unnecessary insurance
- Unnecessary deposits
- Misrepresentation

B. No conflict of interest

The BC/BF should not recommend a product merely because it provides a higher commission or incentive when another product is more suitable for the customer.

C. Proper disclosure of remuneration where required

Where applicable, customers should be informed about relevant charges and the nature of the intermediary relationship.

D. No customer exploitation

Particular care should be taken with:

- Poor customers
- Elderly persons
- Less financially literate customers
- Rural customers
- Vulnerable groups

12. Fraud Prevention Responsibilities

BC/BFs should remain alert to:

- Fake documents
- Identity theft
- Fake accounts
- Unauthorized withdrawals
- Cash manipulation
- Fake receipts

- OTP scams
- Phishing
- Money laundering
- Suspicious transactions

Any suspicious activity should be dealt with according to the **bank's prescribed procedures and applicable law/regulation**.

13. Customer Protection Principles

The BC/BF should ensure:

Fairness

Treat customers fairly.

Transparency

Disclose important terms.

Choice

Allow informed customer choice.

Privacy

Protect personal and financial information.

Security

Protect transactions and credentials.

Grievance Redressal

Tell customers how and where to complain.

Responsibility

Perform only authorized activities.

14. Golden Rules for BC/BF

1. Never lie.

Provide accurate information.

2. Never hide charges.

Explain all applicable costs.

3. Never manipulate documents.

Use genuine information.

4. Never misuse customer data.

Maintain confidentiality.

5. Never promise what the bank has not approved.

6. Never force a product.

Respect customer choice.

7. Never encourage unaffordable borrowing.

8. Never ask for confidential credentials improperly.

9. Always provide transaction confirmation.

10. Always report suspected fraud.

15. Ethical BC/BF Model

Customer **Need**

↓

Right **Product**

↓
Clear **Information**
↓
Transparent **Pricing**
↓
Informed **Consent**
↓
Genuine **Documentation**
↓
Responsible **Processing**
↓
Customer **Protection**
↓
Long-Term Trust

Exam-Oriented Answer

BCs and BFs must follow ethical, transparent and customer-centric practices while sourcing asset and liability products. They should identify genuine customer needs, explain product features, interest rates, fees, risks and terms clearly, ensure proper KYC and documentation, protect customer confidentiality, obtain informed consent and recommend products appropriate to the customer's needs and repayment capacity. They should not misrepresent products, manipulate documents, promise guaranteed loans, charge unauthorized fees, force customers to purchase products, misuse customer information or encourage excessive borrowing. They must perform only authorized activities, maintain records, prevent and report fraud, and assist customers with grievance redressal. Ethical conduct ensures customer protection, regulatory compliance, financial inclusion and the long-term reputation of the bank.

Best principle to remember

"Right Product + Right Customer + Right Information + Right Conduct = Ethical BC/BF Banking."

Business Correspondents (BCs) and Business Facilitators (BFs) must follow strict ethical practices while sourcing asset and liability products to ensure transparency, protect customers, and maintain trust. The Reserve Bank of India (RBI) emphasizes fair disclosure, avoidance of mis-selling, and adherence to grievance redressal mechanisms.

✅ **Do's for BCs/BFs in Asset & Liability Sourcing**

- **Fair Disclosure** Clearly explain product features, interest rates, fees, risks, and repayment obligations to customers.
- **Customer Suitability** Match products to the financial capacity and needs of the client; avoid pushing unsuitable loans or deposits.
- **Transparency in Charges** Provide written documentation of all charges, commissions, and penalties.
- **Grievance Redressal** Inform customers about complaint channels and escalation mechanisms.
- **Confidentiality** Protect customer data and financial information from misuse.
- **Ethical Conduct** Maintain integrity, avoid conflicts of interest, and act in the best interest of the customer.

❌ **Don'ts for BCs/BFs in Asset & Liability Sourcing**

- **Mis-selling** Do not misrepresent product features or hide risks to push sales.
- **Unauthorized Incentives** Avoid offering gifts or inducements to influence customer decisions.
- **Coercion** Never pressure customers into taking loans or deposits they don't need.

- **Data Misuse** Do not share or exploit customer information for personal gain.
- **Overcharging** Avoid hidden fees or unauthorized deductions from customer accounts.
- **Unethical Recovery Practices** Do not use intimidation, harassment, or illegal methods for loan recovery.

📊 **Ethical Practices Framework for BC/BF**

Practice	Do's	Don'ts
Product Disclosure	Provide clear terms, risks, and charges	Hide fees or misrepresent benefits
Customer Interest	Match product to financial capacity	Push unsuitable loans/deposits
Data Handling	Maintain confidentiality	Share/misuse customer data
Charges & Fees	Transparent documentation	Hidden or unauthorized charges
Recovery	Follow RBI-approved recovery methods	Harassment or coercion

⚠️ **Risks & Safeguards**

- **Risk of Mis-selling:** Leads to customer distrust and regulatory penalties.
- **Risk of Coercion:** Damages reputation and violates RBI guidelines.
- **Safeguard:** Regular training, compliance audits, and strict monitoring of BC/BF activities.

Would you like me to draft a **Code of Conduct for BC/BF** that you can circulate in your organization to ensure these ethical practices are formally enforced?

Here's a structured **Draft Code of Conduct for Business Correspondents (BCs) and Business Facilitators (BFs)**, focusing on ethical practices while sourcing asset and liability products.

📜 **Draft Code of Conduct for BCs/BFs**

1. Integrity & Transparency

- Always provide accurate, complete, and clear information about products.
- Disclose interest rates, fees, risks, and repayment obligations upfront.
- Avoid misrepresentation or concealment of product features.

2. Customer-Centric Approach

- Recommend products suitable to the customer's financial capacity and needs.
- Respect customer choice; do not coerce or unduly influence decisions.
- Ensure financial inclusion without exploitation.

3. Fair Practices in Asset Sourcing

- Verify borrower eligibility and repayment ability before recommending loans.
- Avoid over-financing or multiple loans that may lead to indebtedness.
- Follow RBI-approved recovery methods; no harassment or intimidation.

4. Fair Practices in Liability Sourcing

- Promote savings and deposit products responsibly.
- Ensure customers understand withdrawal rules, maturity periods, and penalties.
- Do not mis-sell insurance or investment-linked products.

5. Confidentiality & Data Protection

- Maintain strict confidentiality of customer data.
- Use information only for authorized banking purposes.
- Prevent misuse, unauthorized sharing, or personal gain.

6. Grievance Redressal

- Inform customers about complaint channels and escalation mechanisms.
- Record and resolve grievances promptly.
- Cooperate with audits and compliance checks.

7. Ethical Conduct & Accountability

- Act with honesty, fairness, and professionalism.
- Avoid conflicts of interest or personal bias in product sourcing.
- Accept responsibility for actions and decisions taken.

🚫 **Prohibited Practices**

- **Mis-selling** of loans, deposits, or insurance.
- **Coercion** or undue pressure on customers.
- **Unauthorized charges** or deductions.
- **Data misuse** for personal or third-party benefit.
- **Unethical recovery** methods such as threats or harassment.

📊 **Compliance & Monitoring**

- Regular training on ethical practices and RBI guidelines.
- Periodic audits to ensure adherence to this Code of Conduct.
- Immediate disciplinary action for violations.

This draft can serve as a **formal compliance directive** for BCs/BFs in your organization. Would you like me to expand it into a **detailed policy document** with sections on enforcement, penalties, and monitoring mechanisms?

Module B: FINANCIAL INCLUSION AND ROLE OF BCAs
CHAPTER 15: PMJDY, PMJJBY, PMSBY AND APY
15.1 Objective
15.2 Introduction
15.3 Pradhan Mantri Jan-Dhan Yojana (PMJDY)
15.4 Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
15.5 Pradhan Mantri Suraksha Bima Yojana (PMSBY)
15.6 Atal Pension Yojana (APY)
15.7 NPS/NPS –Swavalamban

Here's a clear and structured overview of the **financial inclusion schemes** you listed, with their purpose, benefits, and ethical practices for BCs/BFs when promoting them.

15.3 Pradhan Mantri Jan-Dhan Yojana (PMJDY)

- **Objective:** Universal access to banking services.
- **Features:** Zero-balance accounts, RuPay debit card, overdraft facility, accidental insurance.
- **Ethical Practice:** Ensure customers understand overdraft repayment obligations and avoid misuse of accounts.

15.4 Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- **Objective:** Affordable life insurance for all.
- **Features:** ₹2 lakh life cover for death due to any reason; annual premium ₹330.
- **Ethical Practice:** Disclose renewal requirements and exclusions; avoid mis-selling to those who cannot afford premiums.

15.5 Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- **Objective:** Accidental insurance coverage.
- **Features:** ₹2 lakh cover for accidental death/disability; annual premium ₹12.
- **Ethical Practice:** Explain claim process clearly; avoid coercion in enrollment.

15.6 Atal Pension Yojana (APY)

- **Objective:** Pension security for unorganized sector workers.
- **Features:** Guaranteed pension between ₹1,000–₹5,000 per month after 60 years; government co-contribution for eligible subscribers.
- **Ethical Practice:** Ensure customers understand long-term commitment and contribution requirements.

15.7 National Pension System (NPS) / NPS – Swavalamban

- **Objective:** Retirement savings with flexible contributions.
- **Features:** Market-linked returns, tax benefits, partial withdrawals allowed; Swavalamban scheme provided government co-contribution for low-income subscribers.
- **Ethical Practice:** Disclose investment risks; avoid mis-selling to customers with short-term financial needs.

📊 **Ethical Guidelines for BCs/BFs Across All Schemes**

Principle	Do's	Don'ts
Transparency	Explain features, premiums, risks	Hide exclusions or obligations
Suitability	Match scheme to customer needs	Enroll customers without consent
Data Handling	Protect customer information	Share/misuse personal data
Grievance Support	Guide customers on claims & complaints	Ignore or delay grievance handling

These schemes are designed to **empower financially excluded households**, but their success depends on BCs/BFs following ethical practices and ensuring customers make **informed choices**.
These are major **Government of India financial-inclusion and social-security schemes**, closely connected with banking. Here is an exam-oriented explanation of each.

15.3 Pradhan Mantri Jan-Dhan Yojana (PMJDY)

PMJDY is a national mission for financial inclusion, launched in **August 2014**, to provide affordable access to basic banking facilities to people who were previously outside the formal banking system.

Objectives

- Provide a **basic bank account** to every unbanked household/person.
- Encourage **saving habits**.
- Provide access to **remittances, credit, insurance and pension**.
- Promote **Direct Benefit Transfer (DBT)** through bank accounts.
- Reduce dependence on informal moneylenders.
- Promote digital payments and financial literacy.

Major features

Feature	**PMJDY**
Type of account	Basic Savings Bank Deposit Account (BSBDA)
Minimum balance	Generally **Nil**
KYC	Simplified KYC provisions applicable
RuPay card	Provided to eligible account holders
Interest	Payable on deposits
DBT	Available
Insurance	Accident insurance cover linked to eligible RuPay cards
Overdraft	Available to eligible account holders, subject to applicable conditions

Importance

PMJDY acts as the **entry point to the formal financial system**. Once an individual has a bank account, other products such as insurance, pension, credit and government benefits can be linked to it.

In simple terms:

PMJDY = Bank account + financial inclusion + access to other financial services.

15.4 Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

PMJJBY is a **one-year renewable term life insurance scheme** aimed particularly at providing affordable life insurance to people who may otherwise have limited insurance coverage.

Key features

- **Type:** Life insurance.
- **Nature:** One-year cover, renewable every year.
- **Entry age:** Generally, **18–50 years**.
- **Renewal:** Annual.
- **Coverage: ₹2 lakh** on death due to any cause, subject to the scheme's terms.
- **Premium:** Currently **₹436 per annum**.
- Premium is generally collected through **auto-debit** from the subscriber's bank account.
- It is available through participating banks/post offices and an associated life insurer.

Important point

PMJJBY is **life insurance**, so the principal benefit is payable on the **death of the insured subscriber**.

Example

Suppose a 35-year-old person joins PMJJBY and pays the prescribed annual premium. If the insured person dies during the period of cover, the nominee can receive the applicable **₹2 lakh death benefit**, subject to scheme conditions.

Remember: PMJJBY → J = Jeevan → Life insurance.

15.5 Pradhan Mantri Suraksha Bima Yojana (PMSBY)

PMSBY is a low-cost **personal accident insurance scheme** designed to provide financial protection against accidental death and specified accidental disabilities.

Key features

- **Type:** Personal accident insurance.
- **Entry age:** Generally, **18–70 years**.
- **Nature:** One-year cover, renewable annually.
- **Premium:** Currently **₹20 per annum**.
- Premium is normally collected through **auto-debit**.
- **Accidental death:** ₹2 lakh.
- **Total and irrecoverable loss of specified eyesight or specified limbs:** ₹2 lakh.
- **Partial disability:** ₹1 lakh for specified eligible cases.
- Benefits are subject to the scheme's terms and conditions.

Example

If an insured subscriber dies due to an eligible accident, the applicable nominee/beneficiary can receive **₹2 lakh**.

PMJJBY vs PMSBY

Particular	**PMJJBY**	**PMSBY**
Full form	Pradhan Mantri Jeevan Jyoti Bima Yojana	Pradhan Mantri Suraksha Bima Yojana
Insurance	Life	Accident
Main risk covered	Death	Accidental death/disability
Entry age	18–50	18–70
Annual premium	₹436	₹20
Main cover	₹2 lakh	Up to ₹2 lakh
Memory aid	**Jeevan = Life**	**Suraksha = Accident protection**

15.6 Atal Pension Yojana (APY)

Atal Pension Yojana (APY) is a government-backed pension scheme primarily aimed at workers in the **unorganized sector**, providing a guaranteed minimum pension after attaining the prescribed age, subject to the scheme's conditions.

Objectives

- Encourage pension savings.
- Provide income security during old age.
- Extend pension coverage to workers outside formal employment.
- Encourage people to make regular long-term contributions.

Key features

- **Entry age:** 18–40 years.
- Contributions are made periodically until the subscriber reaches **60 years**.
- The subscriber chooses a guaranteed minimum pension slab.
- Guaranteed minimum pension options are:
  - **₹1,000 per month**
  - **₹2,000 per month**
  - **₹3,000 per month**
  - **₹4,000 per month**
  - **₹5,000 per month**
- The pension becomes payable after attaining **60 years**, subject to applicable rules.
- After the subscriber's death, pension-related benefits are available to the spouse according to APY rules.
- After the death of both subscriber and spouse, the accumulated pension corpus is payable to the nominee, as prescribed.

Contribution

The amount of contribution depends on:

1. Age at joining.
2. Pension amount selected.
3. Frequency of contribution.

Younger entry generally means a lower periodic contribution for the same pension option because the contribution period is longer.

Example

A person joining APY at age 25 selects the ₹5,000 monthly pension option. The person makes the prescribed contributions until age 60. On satisfying the scheme conditions, the subscriber receives the selected guaranteed minimum pension.

Memory aid:

APY = Pension for old age.

15.7 NPS / NPS–Swavalamban

A. National Pension System (NPS)

NPS is a **defined-contribution pension system** designed to provide retirement income through systematic long-term savings and investment.

Unlike APY, where specified minimum pension benefits are provided under the scheme, **NPS pension depends on contributions, investment performance and the manner in which the accumulated corpus is utilized at retirement**, subject to applicable rules.

Major features

- Long-term retirement savings product.
- Contributions are invested in various asset classes through pension funds.
- Subscriber can select from available investment choices, subject to NPS rules.
- The accumulated corpus is used to provide retirement benefits.
- NPS is regulated by the **Pension Fund Regulatory and Development Authority (PFRDA)**.

Benefits of NPS

- Retirement income planning.
- Professional management of pension investments.
- Choice of investment options.
- Portability.
- Tax benefits subject to prevailing income-tax provisions.
- Suitable for building a retirement corpus over a long period.

B. NPS–Swavalamban

NPS–Swavalamban was an earlier pension initiative intended particularly to encourage pension savings among workers in the **unorganized/informal sector**.

The Government provided a contribution incentive to eligible subscribers under the scheme.

Purpose

- Encourage voluntary pension savings.
- Bring informal-sector workers into the formal pension system.
- Promote long-term retirement security.

Important historical point

NPS–Swavalamban is largely a legacy scheme. It was subsequently replaced/transitioned by the **Atal Pension Yojana (APY)** for eligible subscribers. Therefore, while studying it for banking examinations, it is important to distinguish the **historical NPS–Swavalamban scheme** from the present APY framework.

Quick comparison of all five schemes

Scheme	Main purpose	Key benefit
PMJDY	Financial inclusion	Bank account/basic banking access
PMJJBY	Life insurance	₹2 lakh death benefit
PMSBY	Accident insurance	Up to ₹2 lakh for eligible accidental death/disability
APY	Pension	Guaranteed minimum pension of ₹1,000–₹5,000/month
NPS	Retirement savings	Market-linked retirement corpus/pension
NPS–Swavalamban	Historical pension inclusion	Government-supported pension savings for informal sector

Easy way to remember

PMJDY → ACCOUNT
PMJJBY → LIFE
PMSBY → ACCIDENT
APY → PENSION
NPS → RETIREMENT INVESTMENT

These schemes together illustrate the **financial-inclusion chain**:
Bank Account → Insurance → Accident Protection → Pension → Retirement Security.

Module C: TECHNICAL SKILLS
Chapter 16: Basic Technical Skills (handling Micro-ATMs, Biometric and other Devices, Basic Connectivity Issues)
16.1 Objectives
16.2 Introduction
16.3 IT Enabled Financial Inclusion Using BC Model
16.4 Technology for Low-Cost Financial Inclusion

Basic Technical Skills for BC/BF

BC/BF (Business Correspondent/Business Facilitator) personnel work as an important link between banks and customers, particularly in areas where customers have limited access to banking branches. Therefore, they need basic technical skills to provide banking services safely, accurately and efficiently.

1. Basic knowledge of banking technology

A BC/BF should understand:

- Core Banking Solution (**CBS**)
- Banking applications and BC/BF applications
- Customer account numbers and transaction processing
- Digital banking channels
- Electronic fund transfers
- Basic banking terminology
- Authentication and transaction confirmation

The BC/BF need not be a technical expert, but must be capable of operating the systems provided by the bank.

2. Use of Micro-ATM / Handheld Device

BCs commonly use **Micro-ATMs or handheld banking devices** to provide services in locations where a full branch may not be available.

The BC should know how to:

1. Log in securely.
2. Authenticate the customer.
3. Enter the transaction correctly.
4. Process cash withdrawal/deposit where permitted.
5. Check transaction status.
6. Generate/communicate transaction confirmation.
7. Handle failed or pending transactions.
8. Close/logout from the device properly.

3. Biometric authentication

Many BC transactions use **Aadhaar-enabled biometric authentication**, where applicable.

The BC should know:

- How to operate a biometric scanner.
- How to obtain customer authentication appropriately.
- How to verify that the transaction has actually succeeded.
- What to do when biometric authentication fails.
- Never to force or manipulate authentication.
- Never to retain customers' biometric information improperly.

Important: A biometric authentication failure should not automatically be treated as a fraudulent customer or a failed account relationship.

4. Aadhaar Enabled Payment System (AePS)

BCs may facilitate eligible services through **AePS**, subject to the bank's arrangements.

A BC should understand:

- Customer identification/authentication requirements.
- Aadhaar-linked banking requirements.
- Biometric authentication.
- Cash withdrawal and other permitted transactions.
- Transaction limits and applicable charges.
- Transaction confirmation.
- Dispute/failed-transaction procedures.

The BC should never ask a customer to disclose an **OTP, PIN or password** merely to complete a legitimate BC transaction.

5. Digital payment systems

Basic knowledge of digital payments is important.

A BC should understand:

- **UPI**
- QR-code payments
- IMPS
- NEFT
- RTGS
- Debit cards
- Mobile banking
- Internet banking
- Aadhaar-enabled banking services

The BC should be able to explain the basic process, applicable limits/charges where relevant, and precautions against fraud.

6. Mobile phone and application skills

BCs often depend on smartphones or tablets.

They should know how to:

- Operate Android/mobile devices.
- Install and update authorized banking applications.
- Use mobile data/Wi-Fi safely.
- Maintain device security.
- Use GPS/location functions where required.
- Troubleshoot basic connectivity problems.
- Upload/download permitted documents.
- Receive system notifications.
- Protect the device from unauthorized access.

7. POS and card technology

Where applicable, BCs should understand:

- Point-of-Sale (**POS**) machines.
- Debit-card transactions.
- Chip/contactless cards.
- PIN authentication.
- Transaction receipts.
- Declined transactions.
- Reversal transactions.
- Basic card-security precautions.

A BC should **never ask a customer to reveal their card PIN**.

8. Cash-handling technology

Where cash transactions are permitted, the BC should be technically capable of:

- Recording the transaction correctly.
- Checking transaction status.
- Generating receipts.
- Reconciling cash with system records.
- Identifying failed/reversed transactions.
- Reporting discrepancies immediately.

The BC should not treat a **debit from the customer's account without successful cash/payment delivery** as a completed transaction.

9. Transaction reconciliation

One of the most important technical skills is **reconciliation**.

The BC should compare:

System transaction records + Cash on hand + Receipts/records

and ensure that they agree.

For example:

Opening cash ₹50,000

- Cash received ₹20,000
  − Cash paid to customers ₹30,000
  = Expected closing cash ₹40,000

If the physical cash differs from the system balance, the discrepancy should be reported immediately according to the bank's procedure.

10. Basic troubleshooting

A BC should be able to identify common technical problems such as:

- Network failure.
- Device battery failure.
- Biometric scanner failure.
- Printer failure.
- Server/system downtime.
- Transaction timeout.
- Failed transaction.

- Duplicate transaction.
- Receipt not generated.
- Cash dispensed but transaction not properly reflected.
- Customer account debited but transaction unsuccessful.

The BC should **not repeatedly retry a transaction blindly**, because this may result in duplicate transactions.

11. Cybersecurity awareness

This is an essential BC skill.

BCs should know how to protect:

- Customer account information.
- Passwords.
- PINs.
- OTPs.
- Aadhaar-related information.
- Transaction details.
- Mobile devices.
- Banking applications.

Basic precautions

- Use strong passwords.
- Never share login credentials.
- Never disclose OTPs or PINs.
- Lock the device when unattended.
- Use only authorized applications.
- Avoid unknown links and attachments.
- Keep software updated.
- Report suspected phishing or malware immediately.
- Do not allow unauthorized persons to operate the banking device.

12. Customer data privacy

A BC handles sensitive financial information and must maintain confidentiality.

The BC should:

- Collect only information required for the banking service.
- Keep customer documents secure.
- Avoid discussing customer transactions publicly.
- Never photograph/store documents unnecessarily.
- Never share customer information with unauthorized persons.
- Follow the bank's data-security and record-retention procedures.

13. Digital receipt and record keeping

The BC should know how to:

- Generate transaction receipts.
- Provide confirmation to customers.
- Maintain required records.
- Download/print transaction reports where authorized.

- Maintain daily transaction records.
- Reconcile transactions with bank records.

A customer should be given appropriate evidence of a transaction as prescribed by the bank/system.

14. Basic communication and customer-support skills

Technical skill also includes the ability to explain technology to customers in simple language.
A BC should be able to explain:

- How to use a debit card.
- How to use UPI/QR payments.
- How to conduct basic digital transactions.
- How to protect PINs and OTPs.
- How to identify fraudulent messages/calls.
- What to do when a transaction fails.
- How to lodge a complaint.

15. Complaint and failed-transaction handling

A BC should know:
Do not simply say "contact the branch."
Instead, the BC should know the prescribed process for:

- Recording the complaint.
- Providing acknowledgement/reference number where applicable.
- Reporting failed transactions.
- Escalating technical problems.
- Handling unauthorized transactions.
- Directing customers to the bank's grievance-redressal mechanism.

IIBF- BC / BF Notes

Important Do's and Don'ts for BC/BF

Do's

✅ Use only bank-authorized devices and applications.
✅ Verify customer details as required.
✅ Complete transactions carefully.
✅ Confirm transaction success before handing over cash/closing the transaction.
✅ Provide receipts/acknowledgement.
✅ Reconcile transactions regularly.
✅ Protect customer data.
✅ Report suspicious transactions and technical problems.
✅ Keep devices and software secure.

Don'ts

❌ Don't share your login/password.
❌ Don't ask for or record customer PINs/OTPs.
❌ Don't perform transactions without proper customer authentication.
❌ Don't use unauthorized applications/devices.
❌ Don't retain customer documents unnecessarily.
❌ Don't retry failed transactions repeatedly without checking status.
❌ Don't disclose customer account information.
❌ Don't conceal cash or system discrepancies.
❌ Don't allow another person to use your BC credentials.

Exam-oriented definition

Basic technical skills for BC/BF refer to the ability to operate authorized banking devices, applications and digital channels; perform and authenticate transactions; handle biometric/card/digital-payment technology; maintain electronic records and receipts; reconcile transactions; troubleshoot basic technical problems; and protect customer data and credentials.

One-line memory formula

BC/BF Technical Skills = Device + Authentication + Digital Payments + Transaction Processing + Reconciliation + Troubleshooting + Cybersecurity + Data Privacy.

Basic Technical Skills of BC/BF

Handling Micro-ATMs, Biometric & Other Devices and Basic Connectivity Issues

A **Business Correspondent (BC)** operates as an extension of a bank and often provides banking services through technology-enabled devices in areas where customers may not have easy access to a branch. Therefore, basic technical competence is essential.

1. Handling Micro-ATM

A **Micro-ATM** is a handheld banking device used by BCs to provide permitted banking services, often using a customer's debit card or Aadhaar-based authentication, depending on the service.

Basic components

- Handheld terminal
- Card reader
- Biometric scanner, where applicable
- Display/screen
- Keypad/touchscreen
- Printer, where provided
- SIM/mobile-data connectivity
- Battery/charger

Basic procedure for operating a Micro-ATM

Step 1 – Start the device

- Switch on the device.
- Check battery level.
- Ensure network connectivity.
- Log in using authorized BC credentials.

Step 2 – Select the transaction

Depending on the bank/device, services may include:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Fund transfer or other permitted services

Step 3 – Authenticate the customer

Authentication may involve:

- Debit card + PIN, or
- Aadhaar + biometric authentication, where applicable.

Step 4 – Enter transaction details

- Select the correct service.
- Enter the amount carefully.
- Verify customer/account details displayed by the device.

Step 5 – Confirm transaction

Before completing the transaction, check:

- Customer name/details where displayed.
- Transaction type.
- Amount.

Step 6 – Complete and verify

- Wait for the transaction response.

- Check whether it shows **successful, failed, pending or reversed**.
- Provide the receipt/transaction reference as applicable.

Important precaution

Never assume that a transaction has succeeded merely because the device displayed an initial response. The BC should check the final transaction status.

2. Handling Biometric Devices

Biometric devices are commonly used for customer authentication in applicable Aadhaar-enabled services.

Basic skills required

The BC should know how to:

1. Connect the biometric scanner correctly.
2. Ensure the scanner is recognized by the authorized application.
3. Keep the scanner clean.
4. Guide the customer to place the finger correctly.
5. Wait for authentication to complete.
6. Read the success/failure message.
7. Retry only according to the prescribed procedure.

If biometric authentication fails

Possible reasons include:

- Finger not positioned correctly.
- Dirty scanner.
- Wet/dry fingers.
- Poor-quality fingerprint.
- Device malfunction.
- Connectivity problem.
- Authentication-system issue.
-

What the BC should do

- Ask the customer to clean/dry the finger.
- Try the prescribed finger/alternative authentication method where permitted.
- Check the device connection.
- Check network connectivity.
- Retry according to the system's instructions.
- If unsuccessful, use an authorized alternative process or escalate the issue.

Never manipulate or bypass biometric authentication.

3. Handling Other Devices

A BC may also use several other technology devices.

A. Smartphone/Tablet

The BC should know how to:

- Operate the authorized banking application.
- Maintain adequate battery.
- Connect to mobile data/Wi-Fi.
- Update authorized applications.

- Lock the device when not in use.
- Protect the device with a password/PIN.
- Avoid installing unauthorized applications.

B. POS/Card Reader

Basic skills include:

- Connecting the POS device.
- Reading/swiping/inserting/tapping the card as applicable.
- Processing the transaction.
- Handling PIN entry by the customer.
- Checking transaction status.
- Generating a receipt.
- Handling declined/reversed transactions.

The customer should enter their PIN themselves.

C. Receipt Printer

The BC should know how to:

- Load paper.
- Check paper availability.
- Clear simple paper jams.
- Check printer connectivity.
- Generate/reprint receipts where permitted.

D. QR Code / Digital Payment Device

The BC should understand:

- How to display/scan the authorized QR code.
- How to verify the transaction.
- How to confirm receipt of payment.
- How to identify unsuccessful or pending transactions.

4. Basic Connectivity Issues

Connectivity is one of the most common technical problems faced by BCs.

A transaction may fail because of:

- Weak mobile signal.
- Mobile-data outage.
- Wi-Fi problem.
- SIM problem.
- Bank-server downtime.
- Device/application connectivity issue.
- Temporary network congestion.

Basic connectivity troubleshooting

Step 1 – Check signal
Look at the device's network indicator.
If the signal is weak:

- Move to an appropriate location with better signal.
- Wait briefly and retry according to procedure.

Step 2 – Check mobile data/Wi-Fi
Confirm that:

- Mobile data is switched on.
- Correct SIM is active.
- Wi-Fi is connected, where applicable.
- Data service is functioning.

Step 3 – Check the device

- Restart the authorized application if necessary.
- Check whether the device is responding normally.
- Restart the device if permitted by the bank's procedures.

Step 4 – Check peripheral connections
For biometric/POS/printer devices:

- Check USB/Bluetooth connection as applicable.
- Confirm the device is detected by the banking application.
- Reconnect the peripheral if necessary.

Step 5 – Check transaction status before retrying
This is **extremely important**.
Suppose:
Customer's account is debited → network connection fails → BC does not receive confirmation.
The BC **must not immediately process the transaction again**.
First determine whether the original transaction was:

- Successful,
- Failed,
- Pending, or
- Reversed.

Otherwise, the customer could potentially be charged twice.

5. Common Technical Problems and Solutions

Problem	Possible cause	Basic action
Micro-ATM not starting	Low battery	Charge/reconnect power
No network	Weak signal/data issue	Check network and move to better coverage
Biometric failure	Finger/scanner issue	Clean/dry finger and scanner; retry as permitted
Device not detecting scanner	Connection/application issue	Reconnect and check authorized app
POS transaction declined	Card/account/network issue	Check message and follow prescribed process
Receipt not printing	Paper/printer issue	Check paper and printer connection
Transaction stuck	Connectivity/server issue	Check transaction status before retry
Application not responding	Software/network issue	Restart app/device as permitted
Customer debited but no cash	Transaction/communication failure	Do not repeat blindly; verify status and raise dispute/escalation
Battery running low	Extended use	Charge/power-bank as authorized

6. Device Security

BCs should also possess basic technical-security skills.

They should:

- Keep devices under their control.
- Use authorized applications only.
- Keep passwords confidential.
- Lock the device when unattended.
- Install updates as instructed.
- Avoid unknown links and applications.
- Protect the device from malware.
- Report lost/stolen devices immediately.
- Never allow unauthorized persons to operate the banking terminal.

7. Customer Data Protection

While operating technical devices, BCs may see sensitive information.

They must **not**:

- Photograph customer information unnecessarily.
- Share account information with outsiders.
- Store passwords/PINs.
- Ask customers to disclose OTPs.
- Keep customer authentication information improperly.
- Leave transaction screens visible to unauthorized persons.

8. Basic Technical Escalation

A BC should know when **not to attempt further troubleshooting**.

Escalate to the bank/authorized technical support when:

- Device repeatedly fails.
- Server is unavailable.
- Transactions remain pending.
- Account is debited but service is not delivered.
- Device is lost or stolen.
- Biometric device repeatedly malfunctions.
- There is a suspected security breach.
- Cash and system records do not match.
- An unauthorized transaction is suspected.

Simple troubleshooting flow

Device problem
↓
Check power/battery
↓
Check network/connectivity
↓
Check device/peripheral connection
↓
Check authorized application
↓
Check transaction status
↓
Retry only if permitted
↓
If unresolved → Escalate to bank/technical support

Exam answer — short form

Basic technical skills of a BC/BF include operating Micro-ATMs, biometric scanners, POS machines, smartphones/tablets and receipt printers; performing customer authentication and transactions correctly; checking transaction status; handling basic power, network and device connectivity problems; preventing duplicate transactions; maintaining device and data security; and promptly escalating unresolved technical or transaction-related issues to the bank.

Key principle:

Check → Authenticate → Transact → Confirm → Reconcile → Secure → Escalate

IT-Enabled Financial Inclusion Using the BC Model

IT-enabled financial inclusion means using **Information Technology (IT), digital communication and electronic banking systems** to provide affordable and convenient financial services to people who are underserved or located far from bank branches.

The **Business Correspondent (BC) model** is one of the most important channels through which banks use technology to take banking services to the **last mile**.

1. Meaning of the BC Model

Under the **Business Correspondent model**, a bank appoints eligible individuals or entities as BCs to provide specified banking services on behalf of the bank, particularly in locations where opening a conventional branch may be difficult or costly.

The BC acts as a **banking interface between the bank and the customer**.

Basic structure

Bank

↓

BC / BC Agent

↓

Technology-enabled device

↓

Customer

The BC can therefore bring banking services closer to customers without requiring them to visit a bank branch for every transaction.

2. Role of IT in the BC Model

Technology makes the BC model practical and scalable.

Important technologies include:

- **Core Banking Solution (CBS)**
- Micro-ATMs
- Biometric authentication
- Aadhaar-enabled Payment System (**AePS**), where applicable
- Point-of-Sale (**POS**) devices
- Mobile banking applications
- Smartphones/tablets
- QR codes and digital payments
- Internet/mobile connectivity
- Electronic transaction processing
- SMS/mobile transaction alerts
- Digital receipts
- Data analytics and transaction monitoring

3. How IT Enables Financial Inclusion Through BCs

A. Banking services at the doorstep

A customer in a remote village may not have a bank branch nearby.

The BC equipped with a Micro-ATM or other authorized device can provide permitted services locally.

Thus:

Technology + BC = Last-mile banking

B. Cash withdrawal and deposit
Depending on the bank's arrangements, BCs can facilitate:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Other permitted transactions

The transaction is electronically transmitted to the bank's system.
This reduces the customer's dependence on a physical branch.

C. Biometric authentication
Biometric technology can help authenticate customers in applicable services.
For example:
Customer → Biometric device → Authentication → Bank system → Transaction
This is particularly useful for customers who may have difficulty remembering passwords or using conventional digital banking interfaces.

D. AePS
The **Aadhaar Enabled Payment System (AePS)** allows customers to access certain banking services through an authorized BC using Aadhaar-based authentication, subject to applicable requirements.
It can facilitate services such as:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Other permitted services

This can significantly improve access to banking services in rural and underserved areas.

4. Digital Payments Through BCs
BCs can help customers move from cash-based transactions towards digital payments.
They may educate customers about:

- UPI
- QR-code payments
- Debit cards
- Mobile banking
- Electronic fund transfers
- Digital receipts

Thus, BCs perform not only a **transactional role** but also a **digital-literacy role**.

5. Direct Benefit Transfer (DBT)
IT-enabled banking infrastructure allows government benefits and subsidies to be transferred electronically into beneficiaries' bank accounts.
The BC can help customers:

- Open/access bank accounts.
- Understand DBT credits.

- Check balances.
- Withdraw eligible funds.
- Obtain transaction information.

This improves the **last-mile delivery of government payments**.

6. Financial Inclusion Products Through BCs

The BC model can help customers access several financial products.

Deposit products

- Savings accounts
- Basic bank accounts
- Recurring deposits, where authorized

Credit products

- Agricultural loans
- MSME loans
- Small loans
- Kisan Credit Card-related services, where authorized

Insurance

- PMJJBY
- PMSBY
- Other permitted insurance products

Pension

- Atal Pension Yojana
- NPS-related services, where authorized

Thus, IT-enabled BCs can become a **single access point for multiple financial services**.

7. Customer Identification and e-KYC

Technology can make customer onboarding faster through authorized electronic processes.

A BC may facilitate:

- Customer identification
- KYC documentation
- Electronic verification
- Account-opening requests
- Updating customer information

However, BCs must follow the bank's **KYC/AML procedures** and must not bypass prescribed customer-identification requirements.

8. Real-Time Transaction Processing
Technology allows transactions initiated by BCs to be transmitted electronically to the bank.
For example:
Customer requests withdrawal
↓
BC enters transaction
↓
Customer authentication
↓
Request transmitted electronically
↓
Bank processes transaction
↓
Confirmation received
↓
Cash paid / service completed
↓
Receipt provided
This provides faster service and creates an electronic transaction trail.

9. SMS and Digital Alerts
Technology allows customers to receive transaction information through:

- SMS alerts
- Mobile notifications
- Digital receipts
- Transaction reference numbers

These help customers identify transactions and can provide an additional layer of fraud awareness.

10. IT Helps Banks Monitor BCs
IT is useful not only for serving customers but also for **monitoring BC operations**.
Banks can monitor:

- Number of transactions
- Transaction amounts
- Cash withdrawals/deposits
- Failed transactions
- BC activity
- Unusual transaction patterns
- Complaints
- Cash balances/reconciliation
- Device usage

This supports better **risk management and supervision**.

11. Advantages of IT-Enabled BC Model

For customers

- Banking closer to home
- Reduced travel costs
- Reduced waiting time
- Convenient transactions
- Access to digital payments
- Access to insurance and pension products
- Better access to government benefits
- Increased financial awareness

For banks

- Lower cost of reaching remote customers
- Wider geographical reach
- Increased customer base
- More transactions and deposits
- Better use of digital infrastructure
- Ability to serve areas where traditional branches may not be commercially viable

For the economy

- Greater formalization of financial transactions
- Reduced dependence on informal financial channels
- Better delivery of government benefits
- Increased savings
- Wider access to formal credit
- Greater digital financial participation

12. Challenges of IT-Enabled BC Banking

Technology also creates certain challenges.

Infrastructure problems

- Poor mobile connectivity
- Internet outages
- Electricity problems
- Device failures

Customer-related problems

- Low digital literacy
- Lack of awareness
- Difficulty using digital interfaces
- Language barriers

Security risks

- Phishing
- OTP fraud
- Identity theft
- Device theft
- Unauthorized transactions
- Social engineering

BC-related risks

- Misappropriation of customer funds
- Incorrect transactions
- Poor cash management
- Excessive or unauthorized charges
- Mis-selling
- Credential sharing

Therefore, **technology must be accompanied by proper BC training, customer awareness, cybersecurity and bank supervision.**

13. Role of BC in Digital Financial Literacy

The BC should educate customers about:

- Safe use of ATMs and Micro-ATMs
- PIN confidentiality
- OTP confidentiality
- UPI safety
- Recognizing fraudulent calls/messages
- Checking transaction receipts
- Reporting unauthorized transactions
- Using banking services responsibly

The BC therefore serves as both a **banking service provider and a financial-literacy facilitator**.

14. BC Model and Financial Inclusion — Complete Chain

The IT-enabled BC model can be understood as:

Identification/KYC
↓
Bank Account
↓
Technology-enabled BC access
↓
Deposits & withdrawals
↓
Digital payments
↓
Credit
↓
Insurance
↓
Pension
↓
DBT & Government benefits
↓
Financial Inclusion

15. Important exam points

When writing an answer on **IT-Enabled Financial Inclusion Using the BC Model**, mention these seven components:

1. **BC as the last-mile banking channel**
2. **Micro-ATM and POS devices**
3. **Biometric/Aadhaar-enabled authentication where applicable**
4. **CBS and electronic transaction processing**
5. **Digital payments and mobile banking**
6. **Insurance, pension, credit and DBT**
7. **Cybersecurity, customer protection and monitoring**

Short exam definition

IT-enabled financial inclusion through the BC model is the use of banking technology, digital communication, biometric authentication and electronic payment systems by bank-appointed Business Correspondents to deliver affordable banking and financial services to underserved and geographically remote customers.

One-line conclusion

The BC model provides the human interface, while IT provides the speed, connectivity, authentication and transaction infrastructure—together enabling last-mile financial inclusion.

Technology for Low-Cost Financial Inclusion

Technology for low-cost financial inclusion means using affordable digital and electronic technologies to provide banking, payment, credit, insurance and pension services to people who are **unbanked, underbanked or located in remote areas**, at a cost lower than traditional branch-based banking.

The central idea is:

Use technology to reduce the cost of reaching customers while increasing the geographical and service reach of banks.

1. Why Technology is Needed for Low-Cost Financial Inclusion

Traditional banking requires:

- Bank branches
- Buildings and infrastructure
- Large staff
- ATMs
- Security arrangements
- Cash-management facilities
- Significant operating expenditure

Providing a full branch in every village or remote location may therefore be expensive.

Technology allows banks to provide many services through **low-cost channels** without establishing a conventional branch at every location.

2. Major Technologies Used

A. Business Correspondent (BC) Model

The **BC model** is one of the most important technologies-enabled approaches to financial inclusion.

A BC uses authorized banking devices to provide permitted services on behalf of the bank.

Bank → BC → Customer

The bank can therefore reach customers in remote areas at substantially lower infrastructure cost than establishing a traditional branch everywhere.

B. Micro-ATMs
Micro-ATMs are portable devices used by BCs to provide permitted banking services.
They can support services such as:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Other permitted transactions

They are particularly useful where customers do not have easy access to ATMs or branches.

C. Biometric Authentication
Biometric technology can enable customer authentication for applicable banking services.
It can help:

- Authenticate customers conveniently.
- Reduce dependence on physical documents for every transaction.
- Facilitate last-mile banking.
- Support Aadhaar-enabled services where applicable.

This is particularly useful for customers who may have limited familiarity with conventional digital banking.

3. Aadhaar Enabled Payment System (AePS)
AePS enables customers to access specified banking services through authorized BC channels using Aadhaar-based authentication, subject to applicable requirements.
It can facilitate services such as:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Other permitted services

AePS can reduce the need for customers to travel to branches.

4. Mobile Banking
Mobile phones provide a relatively inexpensive channel for banking services.
Customers can use mobile banking for activities such as:

- Checking balances
- Fund transfers
- Payments
- Receiving transaction alerts
- Accessing banking information

Mobile banking can reach customers even where establishing physical banking infrastructure is costly.

5. UPI and QR-Code Payments
UPI has significantly reduced the cost and complexity of digital payments.
QR codes allow merchants and customers to make digital payments using mobile devices.
Benefits

- Low transaction infrastructure requirement
- Quick payments
- Reduced dependence on cash
- Useful for small-value transactions
- Helps small merchants participate in the formal digital economy

6. Digital Banking / Internet Banking
Digital banking enables customers to access banking services without visiting a branch.
Examples include:

- Online fund transfers
- Account information
- Bill payments
- Service requests
- Digital statements

This reduces the cost of serving customers for both banks and customers.

7. Banking Kiosks and ATMs
Self-service banking infrastructure can provide services outside conventional branches.
Examples:

- ATMs
- Cash recycling machines
- Banking kiosks
- Digital service terminals

These allow banks to serve more customers without assigning a bank employee to every transaction.

8. e-KYC and Digital Customer Onboarding
Technology can simplify customer onboarding through authorized electronic KYC processes.
Benefits include:

- Faster account opening
- Lower paperwork
- Reduced processing costs
- Better accessibility
- Easier customer verification

However, all applicable **KYC/AML requirements must continue to be followed**.

9. Digital Direct Benefit Transfer (DBT)
Government benefits can be transferred electronically into beneficiaries' bank accounts.
The technology chain is broadly:
Government Department → Electronic Transfer → Bank Account → Customer
BCs and digital banking channels can then help customers access or verify the benefit.
This reduces dependence on physical cash distribution and can improve efficiency.

10. Digital Insurance and Pension Services
Technology also helps distribute low-cost social-security products.
Examples include:

- **PMJJBY** – life insurance
- **PMSBY** – accident insurance
- **APY** – pension
- **NPS** – retirement savings

These products can be accessed through banking channels, including BCs where authorized.

11. Core Banking Solution (CBS)

CBS connects banking operations across branches and delivery channels.

A customer can therefore access their account through multiple channels rather than being restricted to one branch.

CBS supports:

- Centralized account records
- Electronic transactions
- Inter-branch banking
- Digital payment channels
- BC transactions
- Transaction monitoring

This is an important foundation for scalable financial inclusion.

12. Cloud and Shared Digital Infrastructure

Modern banking can use shared technology infrastructure to reduce the cost of providing services.

Instead of every institution building completely independent infrastructure, common platforms and technology services can improve:

- Scalability
- Availability
- Processing efficiency
- Cost management

13. Artificial Intelligence and Data Analytics

AI and analytics can increasingly support financial inclusion by helping institutions:

- Analyze customer transaction patterns.
- Identify potential credit customers.
- Detect suspicious transactions.
- Improve fraud detection.
- Personalize financial products.
- Improve customer service.

However, such systems must be used responsibly, particularly regarding **privacy, transparency, fairness and cybersecurity**.

14. Offline and Low-Connectivity Technology

A major challenge in rural financial inclusion is poor connectivity.

Low-cost financial technology therefore needs to work effectively under conditions such as:

- Weak mobile signals
- Intermittent internet
- Limited electricity

- Low-end smartphones
- Low digital literacy

Technologies and processes designed for low-connectivity environments can make financial inclusion more practical.

15. How Technology Reduces the Cost

Traditional approach	Technology-enabled approach
Physical branch	BC/mobile/kiosk
Large infrastructure	Portable devices
Manual paperwork	Digital records
Cash-heavy transactions	Digital payments
Manual verification	Electronic authentication
Branch visit	Mobile/digital access
Physical statements	SMS/e-statements
Manual processing	Automated processing
Individual branch systems	Centralized CBS

Thus, technology helps reduce the **cost per customer served**.

16. Benefits of Low-Cost Technology

For customers

- Lower travel expenses
- Convenient banking
- Faster transactions
- Access to remote banking
- Digital payment options
- Greater access to financial products

For banks

- Lower delivery cost
- Wider customer reach
- Greater transaction volumes
- Better operational efficiency
- Improved monitoring
- Ability to serve low-value customers economically

For society

- Greater financial inclusion
- Increased formal savings
- Better delivery of government benefits
- Reduced dependence on informal finance
- Greater digital participation
- Improved access to insurance and pension products

17. Challenges

Technology does **not automatically guarantee financial inclusion**.

Important challenges include:

Digital divide

Some customers may lack:

- Smartphones
- Internet access
- Digital skills

Connectivity

- Poor mobile network
- Internet outages
- Electricity problems

Cybersecurity

- Phishing
- OTP fraud
- Identity theft
- Malware
- Unauthorized transactions

Customer awareness

Customers may not understand:

- Digital payments
- PIN/OTP security
- Fraud risks
- Complaint procedures

Accessibility

Technology must accommodate:

- Local languages
- Elderly customers
- Persons with disabilities
- Low-literacy customers

18. Role of BC in Low-Cost Technology

The **BC acts as the human interface for technology**.

For example:

Bank's digital infrastructure

↓

Micro-ATM / biometric device

↓

BC

↓

Customer

The BC helps customers who may not be able to independently use sophisticated digital banking systems.

Therefore:

Technology reduces the cost of delivery, while the BC helps overcome the human and digital-literacy barriers to adoption.

19. Important Exam Answer

Definition

Technology for low-cost financial inclusion refers to the use of digital, electronic, mobile, biometric and other technology-enabled banking channels to provide affordable financial services to unbanked and underserved customers while reducing the cost-of-service delivery.

Major technologies

BC Model + Micro-ATM + Biometric Authentication + AePS + Mobile Banking + UPI/QR + POS + ATMs/Kiosks + CBS + e-KYC + DBT + Digital Insurance/Pension

Conclusion

Low-cost financial inclusion is achieved when technology makes banking cheaper, BCs make it accessible, and customer protection makes it trustworthy.

Module C: TECHNICAL SKILLS
Chapter 17: Digital Banking Products
17.1 Objectives
17.2 Introduction
17.3 Need for Digital Banking
17.4 Various types of Cards
17.5 Mobile Banking
17.6 Internet Banking
17.7 Automated Teller Machines (ATMs)
17.8 POS (Point-Of-Sale) Terminals and Micro ATM
17.9 Aadhaar Seeding and e-KYC
17.10 APBS and AEPS
17.11 RuPay Cards
17.12 UPI, BHIM and Bharat QR

1. What is Digital Banking?

Digital banking means providing banking products and services to customers through **digital and electronic channels**, enabling them to perform banking activities without having to visit a physical bank branch for every transaction.

It uses technologies such as:

- Mobile phones and smartphones
- Internet banking
- Mobile banking applications
- ATMs
- Micro-ATMs
- UPI and QR codes
- Debit/credit cards
- POS terminals
- Aadhaar-enabled services, where applicable
- Electronic fund-transfer systems
- Digital customer onboarding and e-KYC
- Artificial intelligence and chatbots

Simple definition

Digital banking is the delivery of banking services through electronic and digital channels using information and communication technology.

2. Examples of Digital Banking

A customer can digitally:

- Open or apply for a bank account through permitted digital processes.
- Check account balance.
- Transfer money.
- Pay bills.
- Make UPI payments.
- Scan QR codes.

- Deposit or withdraw cash through eligible digital/BC channels.
- Download account statements.
- Pay loan instalments.
- Manage cards.
- Receive transaction alerts.
- Purchase eligible financial products.
- Submit certain service requests.
- Lodge complaints through digital channels.

3. Digital Banking vs Traditional Banking

Traditional Banking	Digital Banking
Mainly branch-based	Mainly electronic/digital channels
Physical forms	Digital forms/processes
Face-to-face interaction	Remote/self-service interaction
Branch visit often required	Can often be done remotely
Paper records	Electronic records
Limited operating hours	Many services available 24×7
Higher physical infrastructure cost	Lower marginal service cost
Manual processing	Automated/electronic processing

Important: Digital banking does **not** mean that physical branches become unnecessary. Branches continue to perform services requiring human assistance, cash handling, specialized advice and other functions.

4. Need for Digital Banking

Digital banking is necessary because the banking environment has changed from **branch-centric banking to customer-centric, technology-enabled banking**.

A. Convenience to customers

Customers can access many banking services:

- Anytime
- From anywhere
- Through smartphones/computers
- Without standing in branch queues

This saves considerable time and effort.

B. 24×7 Availability

Many digital banking services are available beyond normal branch working hours.

For example:

- UPI payments
- Mobile banking
- Internet banking
- ATM services
- Digital fund transfers

Therefore, banking becomes more convenient for customers.

C. Financial Inclusion

Digital banking helps bring banking services to people who are:

- Geographically remote
- Underserved by branches
- Low-income customers
- Small merchants
- Rural customers

Combined with **BCs, Micro-ATMs and mobile technology**, it enables last-mile financial inclusion.

D. Lower Cost of Banking

Digital channels reduce dependence on:

- Physical branches
- Paperwork
- Manual processing
- Large amounts of staff time for routine transactions

This can reduce the **cost per transaction** and enable banks to serve large numbers of customers economically.

E. Faster Transactions

Digital banking enables electronic transactions to be processed much faster than many traditional manual processes.

Examples:

- UPI
- IMPS
- NEFT
- RTGS
- Card payments

This is particularly important for businesses and individuals who need quick movement of funds.

5. Promotes Cashless and Less-Cash Transactions

Digital banking provides alternatives to physical cash.

Customers can use:

- UPI
- QR codes
- Debit cards
- Mobile banking
- Internet banking
- Electronic fund transfers

This can reduce the need to carry and handle cash.

6. Supports Government Payments and DBT

Digital banking infrastructure enables **Direct Benefit Transfer (DBT)** and other electronic government payments.

Government benefits can be transferred directly to eligible beneficiaries' bank accounts.

This can:

- Reduce delays.
- Improve transparency.

- Reduce cash-handling requirements.
- Make benefit delivery more efficient.

7. Promotes Financial Inclusion

Digital banking allows customers to access more than just deposit accounts.
It can connect customers to:

Banking

- Savings
- Deposits
- Payments
- Remittances

Credit

- Personal loans
- Agricultural credit
- MSME finance
- Other eligible digital credit products

Insurance

- Life insurance
- Accident insurance

Pension

- APY
- NPS

Thus, digital banking can create a **complete financial-services ecosystem**.

8. Better Customer Service

Digital banking provides customers with:

- Instant transaction alerts
- Digital statements
- Online service requests
- Self-service options
- Faster access to information
- Digital complaint channels

Customers need not visit a branch for every routine enquiry.

9. Greater Transparency

Electronic transactions create **digital records and audit trails**.
This helps:

- Customers verify transactions.
- Banks monitor transactions.
- Authorities conduct appropriate supervision.
- Institutions identify unusual activity.
- Customers receive transaction confirmations.

10. Reduction in Paperwork
Digital banking can replace many paper-based processes with:
- Electronic forms
- Digital records
- Electronic statements
- Digital communication
- e-KYC processes were permitted

This saves time and administrative costs.

11. Helps Small Businesses and Merchants
Digital banking is particularly important for small businesses.
A merchant can use:
- UPI
- QR codes
- POS machines
- Business banking applications
- Electronic collections

This allows even small businesses to accept digital payments and maintain electronic transaction records.

12. Supports Rural Banking
Digital banking combined with the **Business Correspondent (BC) model** allows banks to reach remote areas.
Example
Bank's CBS/digital infrastructure
↓
BC + Micro-ATM/biometric device
↓
Customer in remote village
Thus, digital banking and the BC model complement each other.

13. Improves Operational Efficiency of Banks
For banks, digital technology can:
- Automate routine transactions.
- Reduce manual data entry.
- Reduce paperwork.
- Improve transaction processing.
- Improve monitoring and reporting.
- Enable centralized operations.
- Provide customer data for service improvement.

14. Enables Innovation
Digital banking supports new forms of banking such as:
- Mobile-first banking
- Digital wallets/payment interfaces
- Video-based customer onboarding were permitted
- AI-enabled customer service

- Digital lending
- Personalized financial services
- Open banking-related services
- Account Aggregator ecosystem
- Central Bank Digital Currency-related services

15. Importance of Digital Banking in India

Digital banking is particularly important for India because of:

- Large population and geographical diversity.
- Need for financial inclusion.
- Rapid growth of smartphones.
- Expansion of internet connectivity.
- Growth of UPI and digital payments.
- Government emphasis on DBT.
- Increasing demand for convenient banking.
- Expansion of formal financial services into rural and semi-urban areas.

16. Challenges of Digital Banking

Digital banking also creates challenges.

Technical

- Network failure
- Server downtime
- Device problems
- Electricity/connectivity issues

Security

- Phishing
- Cyberattacks
- Identity theft
- Malware
- OTP/social-engineering fraud
- Unauthorized transactions

Customer-related

- Low digital literacy
- Lack of awareness
- Language barriers
- Difficulty using smartphones

Privacy

Large quantities of customer data are processed digitally, making **data protection and confidentiality** important.

Therefore, digital banking must be accompanied by:

Cybersecurity + Customer Awareness + Data Protection + Strong Authentication + Effective Grievance Redressal

17. Digital Banking and Financial Inclusion

The relationship can be remembered as:

Technology
↓
Digital Banking Channels
↓
Lower Cost + Wider Reach + Convenience
↓
Access to Banking Services
↓
Financial Inclusion

Exam-ready answer

Digital banking is the delivery of banking products and services through digital and electronic channels such as mobile banking, internet banking, ATMs, UPI, cards, POS terminals, Micro-ATMs and other technology-enabled platforms. It enables customers to access banking services conveniently, quickly and often at lower cost without depending entirely on physical branches.

Need for digital banking

1. **Convenience and anytime access**
2. **24×7 availability of many services**
3. **Lower transaction and service-delivery costs**
4. **Faster payments and fund transfers**
5. **Financial inclusion and last-mile banking**
6. **Promotion of digital payments**
7. **Efficient DBT and government payments**
8. **Reduction in paperwork**
9. **Greater transparency and electronic audit trails**
10. **Better customer service**
11. **Support for rural and small-business banking**
12. **Improved operational efficiency and innovation**

One-line conclusion

Digital banking transforms banking from a predominantly branch-based service into a technology-enabled, convenient, faster and more accessible financial service, making it a key instrument for modern banking and financial inclusion.

Digital Banking Products

Digital banking products are banking products and services delivered through electronic channels such as mobile apps, internet banking, ATMs, cards, UPI, POS terminals, and other digital platforms.
They can be broadly classified into **digital deposit products, payment products, credit products, investment/insurance products, and digital service products**.

1. Digital Savings Account

A **digital savings account** allows customers to open and operate a savings account using digital processes, subject to applicable KYC requirements.

Features

- Digital account-opening process
- Electronic KYC/e-KYC were permitted
- Mobile/internet banking
- UPI facility
- Debit card
- Digital statements
- SMS/mobile alerts

Purpose: Provides convenient access to basic banking services without requiring repeated branch visits.

2. Digital Current Account

A **digital current account** is designed mainly for businesses, traders and other entities requiring frequent transactions.

Features

- Digital onboarding where available
- Online fund transfers
- UPI/business payment facilities
- Digital statements
- Cash-management services
- Integration with business payment systems

Purpose: Facilitates efficient business transactions and collections.

3. Internet Banking

Internet banking allows customers to access banking services through a bank's website using a computer or other internet-enabled device.

Services

- Balance enquiry
- Account statements
- Fund transfers
- Bill payments
- Tax payments
- Cheque-related services
- Card management
- Service requests

Main advantage: Banking without visiting a branch for routine services.

4. Mobile Banking

Mobile banking provides banking services through a **smartphone/mobile application or other authorized mobile channel**.

Customers can:

- Check balances.
- Transfer funds.
- Pay bills.
- Manage cards.
- Make UPI payments.
- View statements.
- Receive alerts.
- Submit service requests.

Mobile banking is one of the most important digital banking delivery channels.

5. UPI

Unified Payments Interface (UPI) enables customers to make instant account-to-account digital payments through participating applications and banks.

Uses

- Person-to-person payments
- Merchant payments
- QR-code payments
- Bill payments
- Online purchases
- Recurring/mandated payments through applicable features

Advantages

- Fast
- Convenient
- Interoperable
- Available through multiple participating applications
- Reduces dependence on cash

6. QR-Code Payments

A **QR code** enables a customer to initiate a digital payment by scanning a merchant's or recipient's QR code using an authorized payment application.

Example

Customer scans QR → Enters/ confirms amount → Authenticates → Payment processed

It is particularly useful for **small merchants and small-value transactions**.

7. Debit Cards

A debit card allows customers to access funds in their bank account for:

- ATM withdrawals
- POS payments
- Online purchases
- Contactless payments, where enabled

The transaction amount is generally debited from the customer's linked account.

8. Credit Cards

A credit card provides a **credit facility** up to an approved limit.
Customers can use it for:

- Purchases
- Online payments
- POS transactions
- Recurring payments
- Other permitted transactions

The customer subsequently repays the amount according to the card's terms.
Difference:
Debit card → customer's own bank balance
Credit card → credit facility provided by issuer

9. Prepaid Payment Instruments (PPIs)

PPIs allow customers to store value and make payments using an authorized instrument.
Examples can include certain:

- Wallets
- Prepaid cards
- Other permitted prepaid instruments

They are useful for digital payments subject to the applicable regulatory framework and limits.

10. Digital Fund Transfer Services

Banks provide several electronic fund-transfer mechanisms.
NEFT
National Electronic Funds Transfer enables electronic transfer of funds between participating bank accounts.
RTGS
Real Time Gross Settlement is designed for real-time processing of individual transactions, particularly for high-value transfers, subject to applicable minimums/rules.
IMPS
Immediate Payment Service enables immediate electronic fund transfers through participating banks/channels, subject to applicable conditions.
These systems allow customers to transfer money without physically visiting a branch.

11. Digital Bill Payment

Customers can pay:

- Electricity bills
- Telephone/mobile bills
- Water bills
- Insurance premiums
- Utility bills
- Other permitted bills

through digital banking platforms.
This saves time and reduces dependence on cash and physical payment centers.

12. Digital Deposits

Banks increasingly allow customers to manage deposits through digital channels.

Examples include:

- Fixed deposits
- Recurring deposits
- Digital term deposits

Customers may be able to open, renew or manage eligible deposits digitally.

Benefit

Convenience and reduced paperwork.

13. Digital Lending

Digital lending uses technology to facilitate some or all stages of the lending process.

Possible stages include:

Application → KYC → Credit assessment → Sanction → Documentation → Disbursement → Repayment

Examples

- Personal loans
- Consumer loans
- MSME loans
- Agricultural loans
- Other eligible credit products

Digital lending can reduce processing time, but must comply with applicable regulatory and consumer-protection requirements.

14. Digital EMI / Loan Repayment

Customers can repay loans digitally through:

- UPI
- Internet banking
- Mobile banking
- Auto-debit/e-mandates
- Other authorized electronic channels

This makes regular repayment easier and reduces missed-payment risks.

15. Digital Insurance Services

Banks and banking platforms can distribute or facilitate insurance products digitally, where permitted.

Examples include:

- Life insurance
- Health insurance
- Motor insurance
- PMJJBY
- PMSBY

Customers may be able to obtain information, make payments and manage certain insurance services digitally.

16. Digital Pension Services

Digital banking can facilitate access to pension products and services such as:

- Atal Pension Yojana (**APY**)
- National Pension System (**NPS**)

Services can include:

- Registration
- Contributions
- Account information
- Transaction records
- Service requests

17. Digital Investment Products

Banks may provide digital access to investment-related products/services, subject to applicable regulations and the institution's authorization.

Examples can include:

- Mutual funds
- Government securities
- Bonds
- Fixed-income products
- Other investment products

Digital platforms make investment information, transactions and account management more convenient.

18. Digital Remittance Services

Digital remittance services enable customers to transfer money:

- Within the country
- Across bank accounts
- To family members
- For business purposes
- Through eligible international remittance channels

They are particularly important for migrant workers and customers who regularly transfer money.

19. Digital Cash Management Services

For businesses, banks provide technology-enabled cash-management solutions.

These may include:

- Collections
- Payments
- Receivables management
- Payroll services
- Account reconciliation
- Transaction reporting

Such services help businesses manage their cash flows electronically.

20. Digital Trade Finance
Banks increasingly provide technology-enabled services for businesses involved in trade.
Examples may include digital processing of:

- Letters of credit
- Bank guarantees
- Trade documents
- Export/import transactions
- Supply-chain finance

This can reduce paperwork and processing time.

21. Digital Bank Statements and e-Documents
Customers can obtain:

- e-statements
- Account certificates
- Transaction histories
- Interest certificates
- Loan statements
- Other eligible documents

through digital banking channels.
This reduces paper usage and branch visits.

22. Digital Customer Service
Digital banking also includes self-service facilities such as:

- Chatbots
- Online complaint registration
- Service-request tracking
- Card blocking/unblocking
- Cheque-book requests
- Address/contact-detail updates were permitted
- Appointment booking
- Account-related enquiries

23. Digital Alerts and Notifications
Banks provide electronic alerts for:

- Deposits
- Withdrawals
- Card transactions
- UPI transactions
- Fund transfers
- Loan instalments
- Low balances
- Suspicious transactions

These alerts help customers monitor their accounts and detect unauthorized activity.

24. Digital BC / Micro-ATM Services

Under the **Business Correspondent (BC) model**, technology enables banking services through:

- Micro-ATMs
- Biometric devices
- POS devices
- Smartphones/tablets
- AePS, where applicable

This is especially important for **rural and last-mile financial inclusion**.

Quick Classification for Exams

Category	Digital Banking Products/Services
Deposits	Digital savings account, current account, FD, RD
Payments	UPI, QR, cards, wallets/PPIs
Fund Transfer	NEFT, RTGS, IMPS
Cash Access	ATM, Micro-ATM, BC services
Lending	Digital loans, digital EMI repayment
Insurance	Digital insurance, PMJJBY, PMSBY
Pension	APY, NPS
Investment	Mutual funds, securities and other eligible investments
Remittance	Digital domestic/international remittance
Business Banking	Cash management, digital collections, trade finance
Customer Service	e-statements, alerts, online complaints, service requests

Easy Memory Formula

A–P–C–I–P–S

A — Accounts

Savings, current, deposits

P — Payments

UPI, QR, cards, PPIs, NEFT, RTGS, IMPS

C — Credit

Digital loans and repayments

I — Insurance & Investment

Insurance, mutual funds, securities

P — Pension

APY, NPS

S — Services

e-statements, alerts, customer service, BC/Micro-ATM

Exam-ready definition

Digital banking products are banking products and services delivered through electronic channels such as mobile banking, internet banking, UPI, cards, ATMs, Micro-ATMs and other digital platforms. They cover deposits, payments, fund transfers, credit, insurance, pension, investments, remittances and customer-service facilities.

Various Types of Cards Used by Banks Across India

Banks in India issue different types of cards for **cash withdrawal, payments, credit, prepaid transactions, government/social-security payments and specialized banking needs**.

1. Debit Card

A **debit card** is linked to the customer's bank account. When the customer makes a transaction, the amount is normally debited from the linked account.

Uses

- ATM cash withdrawal
- POS purchases
- Online shopping
- Contactless payments, where enabled
- Other permitted digital transactions

Examples of networks

- RuPay
- Visa
- Mastercard

Key point:

Debit card = Spend money available in your bank account.

2. Credit Card

A **credit card** provides the cardholder with a pre-approved credit limit.

The customer can make purchases up to the available limit and repay the amount subsequently according to the card terms.

Uses

- Shopping
- Online purchases
- POS transactions
- Contactless payments
- Recurring payments
- Other permitted transactions

Important features

- Credit limit
- Billing cycle
- Minimum amount due
- Total amount due
- Interest/charges as applicable
- Rewards/cashback in some cards

Key point:
Credit card = Borrow now and repay later.

3. Prepaid Card
A **prepaid card** is loaded with money/value before it is used.
It is not necessarily linked directly to the user's bank account in the same manner as a debit card.
Uses

- Payments
- Online purchases
- Controlled spending
- Specific-purpose payments

Prepaid cards operate within the applicable regulatory framework for **Prepaid Payment Instruments (PPIs)**.

4. ATM Card
An **ATM card** is primarily designed for accessing cash and certain ATM services.
Historically, ATM cards were used mainly for:

- Cash withdrawal
- Balance enquiry
- Mini statement
- Other ATM services

Modern bank cards generally combine ATM functionality with debit-card payment functionality.
Difference
ATM card → primarily ATM access
Debit card → ATM + merchant/e-commerce payments

5. RuPay Card
RuPay is India's domestic card payment network operated by **NPCI (National Payments Corporation of India)**.
RuPay cards are issued in different categories, including:

- Debit cards
- Credit cards
- Prepaid cards

Significance

- Domestic card-payment infrastructure
- Acceptance at participating domestic and international locations
- Supports India's digital-payment ecosystem

Important: RuPay is a **card network**, not a separate type of account.

6. Visa Card
Visa is an international card-payment network.
Indian banks issue Visa-branded:

- Debit cards
- Credit cards
- Prepaid cards

The bank is generally the card issuer, while Visa provides the payment-network infrastructure.

7. Mastercard

Mastercard is another international card-payment network.
Banks may issue Mastercard-branded:

- Debit cards
- Credit cards
- Prepaid cards

Again, **Mastercard is a payment network rather than a separate banking product category.**

8. Contactless Card

A **contactless card** uses near-field communication (**NFC**) technology to allow a customer to make eligible payments by tapping the card on a compatible terminal.

Advantages

- Fast
- Convenient
- Less physical contact with the terminal

For transactions above applicable limits, additional authentication such as a PIN may be required according to the applicable rules and card settings.

9. Chip Card / EMV Card

Modern bank cards generally contain an **EMV chip**.
The chip provides enhanced security compared with older magnetic-stripe-only cards.

Used for

- POS transactions
- ATM transactions
- Card authentication

EMV refers to the technical standards associated with chip-based payment cards.

10. Magnetic-Stripe Card

Older cards commonly used a **magnetic stripe** to store card information.
Magnetic-stripe-only cards are much less common in modern Indian banking because chip and contactless technologies offer stronger security.

11. Virtual Debit/Credit Card

A **virtual card** exists electronically rather than as a traditional physical plastic card.
It may be used for:

- Online purchases
- Subscription payments
- Digital transactions

Some banks issue virtual cards through internet/mobile banking.

Advantage

The customer can use the card details without carrying a physical card.

12. Corporate / Business Card

A **corporate card** is issued for business-related expenses.

It can be used for:

- Travel expenses
- Procurement
- Employee expenses
- Business payments
- Other authorized corporate expenditure

It allows organizations to control and monitor employee spending.

13. Commercial / Purchasing Card

A **purchasing card (P-card)** is designed to facilitate controlled business procurement.

It can help organizations:

- Make routine purchases
- Set spending limits
- Monitor transactions
- Reduce paperwork
- Improve expense management

14. Government / Social-Security Related Cards

Banks may issue or facilitate cards connected with particular government programmes or benefit-distribution arrangements.

For example, eligible beneficiaries may receive payment instruments/cards associated with government schemes or accounts.

The exact nature and availability depend on the relevant scheme and banking arrangement.

15. Kisan Credit Card (KCC)

The **Kisan Credit Card** is a specialized banking/credit facility for farmers.

It provides eligible farmers access to credit for agricultural and related needs.

Uses may include

- Crop cultivation expenses
- Working-capital requirements
- Agricultural allied activities
- Other eligible agricultural needs

Important distinction

KCC is primarily a **credit facility/product**, not merely a conventional payment card.

16. Foreign Currency / Travel Card

A **prepaid travel/forex card** can be loaded with foreign currency/value for use while travelling abroad, subject to applicable foreign-exchange regulations.

Uses

- Overseas purchases
- ATM withdrawals abroad
- Travel expenses

Some cards can support multiple currencies.

17. Gift Card

A **gift card** is a prepaid payment instrument that can be used by the recipient for eligible purchases.
Banks or other authorized issuers may provide gift cards subject to applicable rules.

18. Fleet Card / Fuel Card

A **fleet or fuel card** is designed primarily for vehicle fleets and business fuel expenses.
It can help organizations:

- Control fuel expenditure
- Set spending limits
- Track vehicle-related transactions
- Generate expense reports

19. Student / Campus Card

Some banks and educational institutions provide specialised cards for students.
Depending on the arrangement, these may combine:

- Debit-card functionality
- Identification
- Campus payments
- Library/access functions
- Other institution-specific services

20. Affinity / Co-branded Cards

A **co-branded card** is issued jointly by a bank/card issuer and another organisation or brand.
Examples may include cards associated with:

- Airlines
- Retailers
- E-commerce companies
- Educational institutions
- Other organizations

Customers may receive benefits such as rewards, discounts or loyalty points, depending on the card.

21. International Debit/Credit Cards

Banks issue cards that can be used for eligible transactions **outside India**, depending on:

- Card network
- Card type
- International usage being enabled
- Foreign-exchange regulations
- Bank/card terms

They can be used for:

- International POS transactions
- International online purchases
- Overseas ATM withdrawals

22. Differentiation by Card Technology

Cards can also be classified according to technology:

Type	Main feature
Magnetic stripe	Uses magnetic stripe
Chip/EMV	Uses embedded chip
Contactless	Uses NFC/tap technology
Virtual	Exists digitally
Biometric-enabled	Uses biometric authentication in applicable arrangements

23. Differentiation by Purpose

Purpose	Card
Access own bank funds	**Debit Card**
Access credit	**Credit Card**
Preloaded value	**Prepaid Card**
ATM access	**ATM Card**
Agricultural credit	**Kisan Credit Card**
Overseas travel	**Forex/Travel Card**
Business expenses	**Corporate Card**
Procurement	**Purchasing Card**
Fuel/fleet expenses	**Fleet/Fuel Card**
Online-only transactions	**Virtual Card**
Brand/loyalty benefits	**Co-branded Card**

Debit vs Credit vs Prepaid

This is particularly important for examinations.

Feature	Debit Card	Credit Card	Prepaid Card
Source of funds	Bank account	Credit facility	Preloaded value
Borrowing involved	Normally no	Yes	Normally no
Linked to savings/current account	Usually	Not necessarily	Not necessarily
ATM withdrawal	Usually available	May be available	Depends on product
Repayment required	No	Yes	No, within loaded value
Main purpose	Banking/payment	Credit/payment	Controlled/preloaded payment

Important distinction: Card vs Card Network

Do **not** confuse these two.

Card types

- Debit card
- Credit card
- Prepaid card
- KCC
- Corporate card
- Travel card

Card networks

- **RuPay**
- **Visa**
- **Mastercard**
- Other permitted networks

For example:

A bank may issue a **RuPay debit card**.

Here, **debit card = type of card**, while **RuPay = payment network**.

Exam-ready answer

The major cards used by banks in India include debit cards, credit cards, prepaid cards, ATM cards, RuPay/Visa/Mastercard-branded cards, contactless cards, chip/EMV cards, virtual cards, corporate cards, purchasing cards, Kisan Credit Cards, forex/travel cards, gift cards, fleet/fuel cards and co-branded cards. These cards serve different purposes such as accessing bank deposits, obtaining credit, making digital payments, agricultural finance, business expenditure and international transactions.

Easy memory formula

D–C–P–A–K–T–C

D = Debit

C = Credit

P = Prepaid

A = ATM

K = Kisan Credit Card

T = Travel/Forex

C = Corporate/Co-branded

And remember:

RuPay, Visa and Mastercard are primarily card-payment networks; debit, credit and prepaid are card/product categories.

Mobile Banking — Complete Notes

1. Meaning of Mobile Banking

Mobile banking is the provision of banking and financial services through a **mobile phone or smartphone using authorized banking applications, mobile websites, SMS, USSD or other approved mobile channels**.
It allows customers to perform many banking activities without visiting a bank branch.

Simple definition
Mobile banking is a digital banking service that enables customers to access and operate their bank accounts and use permitted banking services through mobile devices.

2. Need for Mobile Banking

Mobile banking is important because it provides:

1. **Convenient banking** from almost anywhere.
2. **24×7 access** to many services.
3. **Faster transactions**.
4. **Lower cost** of routine banking.
5. **Reduced branch visits**.
6. **Financial inclusion**, especially when combined with BCs and other last-mile channels.
7. **Easy digital payments**.
8. **Real-time transaction alerts and information**.
9. Access to banking services for customers in **rural and remote areas**, subject to connectivity.

3. Mobile Banking Channels

Mobile banking can be delivered through several channels.

A. Mobile Banking Application

The bank's authorized mobile app may provide:

- Account information
- Fund transfers
- UPI
- Bill payments
- Card management
- Deposits
- Loan services
- Service requests
- Statements

B. SMS Banking

Customers can receive information through SMS.
Examples:

- Balance alerts
- Transaction alerts
- Debit/credit notifications
- Other banking notifications

C. USSD Banking

USSD (Unstructured Supplementary Service Data) can provide certain banking services through mobile-network menus without requiring a smartphone or conventional internet connection.

It can be useful for customers with basic mobile phones, subject to the services supported by the bank.

D. Mobile Web Banking

Customers can access certain banking services through a bank's mobile-friendly website.

E. UPI Applications

Mobile applications can enable UPI-based:

- Person-to-person payments
- Merchant payments
- QR payments
- Other permitted UPI services

4. Major Services Through Mobile Banking

A. Account Information

Customers can:

- Check account balance.
- View transaction history.
- Download/view statements.
- Check deposits.
- View loan information.

B. Fund Transfer

Mobile banking can facilitate electronic fund transfers through applicable systems such as:

- UPI
- IMPS
- NEFT
- Other permitted transfer mechanisms

The exact availability and limits depend on the bank and payment system.

C. UPI Payments

UPI has become a major mobile-payment channel.

A customer can:

Open payment app → Select recipient/scan QR → Enter amount → Authenticate → Payment completed

UPI may support both personal and merchant payments, subject to applicable rules and features.

D. Bill Payments

Customers can use mobile banking to pay:

- Electricity bills
- Telephone bills
- Mobile bills
- Water bills
- Insurance premiums
- Other eligible bills

E. Mobile Recharge

Mobile banking/payment applications may allow:

- Prepaid mobile recharge
- Postpaid bill payment
- Other eligible communication-service payments

F. Card Management

Depending on the bank, mobile banking may allow customers to:

- Block a card.
- Temporarily switch card usage on/off.
- Manage domestic/international usage.
- Set transaction limits.
- View card transactions.
- Request replacement.

G. Deposits

Customers may be able to open/manage eligible:

- Fixed deposits
- Recurring deposits
- Other term-deposit products

through mobile banking.

H. Loan Services

Mobile banking may provide:

- Loan information
- Outstanding balance
- EMI details
- Repayment facilities
- Loan applications for eligible products
- Digital loan processing, where available

5. Authentication in Mobile Banking

Authentication is important because mobile banking gives access to financial information and transactions. Common authentication mechanisms can include:

- Mobile number/device registration
- Login ID and password
- MPIN
- OTP
- PIN
- Biometric authentication
- Device binding
- Additional authentication for certain transactions

The exact mechanism depends on the bank and service.

6. MPIN

MPIN = Mobile Personal Identification Number.

It is a security credential used by some mobile banking services to authenticate the customer.

Important rule

Never disclose an MPIN to another person.

7. OTP

OTP = One-Time Password.

It is a temporary authentication code used for certain transactions or authentication processes.

Security rule

A bank official, BC, customer-service representative or genuine payment application should not require a customer to disclose their confidential OTP to complete a legitimate transaction.

8. Mobile Banking Security

Mobile banking involves significant security risks.

Major threats

- Phishing
- Smishing — SMS-based phishing
- Fake mobile applications
- Malware
- SIM-related fraud
- Social engineering
- Screen-sharing scams
- Remote-access fraud
- Credential theft
- Unauthorized transactions
- Fake customer-care numbers/websites

9. Safety Precautions

Customers should:

Protect credentials

- Never share OTP, PIN, MPIN or passwords.
- Don't write PINs where others can see them.
- Use strong authentication.

Protect the phone

- Use screen lock.
- Keep the operating system updated.
- Install apps only from trusted/official sources.
- Do not root/jailbreak the device unnecessarily.
- Keep security software updated where appropriate.

Avoid fraud

- Don't click suspicious links.
- Don't install apps sent through unknown links.
- Don't give remote access to the phone.
- Don't disclose confidential banking information over calls.

- Verify payment requests before approving them.

Monitor accounts

- Check transaction alerts.
- Review account statements.
- Report unauthorized transactions promptly.

10. Mobile Banking and Financial Inclusion

Mobile banking is a powerful tool for **financial inclusion**.

Traditional model

Customer → Bank Branch

Mobile model

Customer → Mobile Phone → Bank's Digital System

BC-assisted model

Bank → Digital Infrastructure → BC → Mobile/Micro-ATM → Customer

This enables banking services to reach customers who are far from traditional branches.

11. Mobile Banking and Business Correspondents

BCs can use mobile/handheld devices to provide permitted services.

They may use:

- Smartphones
- Tablets
- Micro-ATMs
- Biometric devices
- POS devices
- Mobile applications

Technology enables the BC to communicate transaction requests to the bank's systems.

Thus:

BC provides the human interface, while mobile and digital technology provides the transaction interface.

12. Mobile Banking and UPI

These two concepts should not be confused.

Mobile banking

A **broader banking channel** through mobile devices.

UPI

A **payment infrastructure/interface** that enables interoperable bank-account-based payments.

A bank's mobile application may provide UPI services, but **mobile banking is broader than UPI**.

13. Mobile Banking vs Internet Banking

Feature	Mobile Banking	Internet Banking
Main device	Mobile phone/tablet	Computer/mobile browser
Access	App/SMS/USSD/mobile web	Web browser/app
Portability	Very high	Generally lower
UPI	Commonly integrated	May be available through bank channels, but UPI is primarily mobile-oriented
Notifications	Push/SMS	Email/SMS/web
Branch visit	Usually unnecessary for routine services	Usually unnecessary for routine services

Both are components of **digital banking**.

14. Mobile Banking vs Mobile Payment

Mobile banking

Provides a **wide range of banking services**.

Mobile payment

Primarily concerns **making or receiving payments using a mobile device**.

For example:

Checking your account balance = mobile banking

Paying a shopkeeper using a QR code = mobile payment

A single mobile application may provide both.

15. Advantages of Mobile Banking

For customers

- Convenience
- Anytime access
- Faster transactions
- Reduced travel
- Lower transaction effort
- Easy account monitoring
- Digital payments
- Quick service requests

For banks

- Lower cost of routine transactions
- Reduced branch workload
- Greater customer reach
- Increased digital transactions
- Better customer engagement
- Electronic records and transaction trails

For the economy

- Supports digital payments
- Promotes financial inclusion
- Reduces dependence on cash

- Helps formalize financial transactions
- Supports digital commerce

16. Limitations of Mobile Banking

Technical limitations

- Poor internet connectivity
- Mobile network failures
- Server downtime
- Battery problems
- Device failure

Customer limitations

- Low digital literacy
- Lack of smartphone access
- Difficulty with applications
- Language barriers

Security limitations

- Cyber fraud
- Phishing
- Malware
- Device theft
- Social engineering

Accessibility limitations

Not every customer can easily use a smartphone or digital interface.

Therefore, mobile banking should complement—not completely replace—**branches, ATMs, BCs and other banking channels**.

17. Mobile Banking in Rural Areas

Mobile banking can help rural customers with:

- Balance enquiries
- Digital payments
- Fund transfers
- Government-benefit access
- Insurance/pension payments
- Bill payments
- Account monitoring

Where smartphone/internet access is limited, **BCs, Micro-ATMs, biometric devices and other assisted channels** remain important.

18. Mobile Banking and Government Schemes

Mobile banking can support access and servicing of products/schemes such as:

- PMJDY
- PMJJBY
- PMSBY
- APY
- NPS

- DBT-related banking services

For example, a PMJDY account can serve as a basic financial-access point, while mobile banking can provide the customer with convenient digital access to the account.

19. Mobile Banking and Customer Protection

Banks and customers must ensure:

- Secure authentication
- Transaction alerts
- Privacy of customer information
- Proper complaint mechanisms
- Timely reporting of unauthorized transactions
- Fraud awareness
- Secure application design
- Appropriate transaction limits and controls

20. Future of Mobile Banking

Mobile banking is increasingly moving towards:

- AI-powered customer service
- Voice-based banking
- Biometric authentication
- Personalized financial services
- Open banking-related services
- Embedded finance
- Digital lending
- Advanced fraud detection
- Greater integration with UPI and digital commerce
- More accessible multilingual interfaces

Exam-Oriented Summary

Definition

Mobile banking is the delivery of banking services through mobile phones and other mobile devices using authorized applications, SMS, USSD, mobile websites and other electronic channels.

Major services

Account information → Fund transfer → UPI → Bill payment → Recharge → Card management → Deposits → Loan services → Statements → Alerts → Service requests

Major technologies

Smartphone + Mobile App + Internet/Mobile Data + SMS + USSD + UPI + QR + OTP/MPIN + Biometric Authentication

Major benefits

1. Convenience
2. 24×7 access to many services
3. Faster transactions
4. Lower service cost
5. Financial inclusion
6. Reduced branch visits
7. Digital payment promotion
8. Better customer monitoring

Major risks

1. Phishing/smishing
2. Malware
3. Fake apps
4. Credential theft
5. SIM-related fraud
6. Social engineering
7. Unauthorized transactions
8. Privacy risks

One-line conclusion

Mobile banking is a key component of digital banking that combines the reach of mobile technology with banking infrastructure to provide convenient, fast, low-cost and increasingly inclusive financial services.

Internet Banking — Complete Notes

1. What is Internet Banking?

Internet Banking, also called **Online Banking or Net Banking**, is a banking service that allows customers to access and perform banking transactions through the **internet using a bank's authorized website or online platform**, without visiting a physical branch for every service.

Simple definition

Internet banking is the electronic delivery of banking products and services to customers through an internet-enabled device using a bank's authorized online banking platform.

It is an important component of **digital banking**.

2. Need for Internet Banking

Internet banking is needed to provide:

- **24×7 access** to many banking services.
- Convenient banking from home, office or elsewhere.
- Faster fund transfers and payments.
- Reduced dependence on physical branches.
- Lower transaction and service-delivery costs.
- Easy access to account information.
- Digital access to banking products.
- Greater financial inclusion when supported by appropriate digital infrastructure.

3. How Internet Banking Works

A simplified process is:

Customer's computer/mobile
↓
Internet connection
↓
Bank's secure website/online platform
↓
Authentication
↓
Bank's Core Banking System / relevant banking systems
↓
Transaction processing
↓
Confirmation to customer

For example, when a customer transfers money:

Login → Authenticate → Enter beneficiary/details → Enter amount → Confirm → Additional authentication where required → Bank processes → Transaction confirmation

4. Main Services Available Through Internet Banking

A. Account Information

Customers can generally:

- Check account balance.
- View transaction history.

- Download account statements.
- View deposit accounts.
- View loan accounts.
- Check interest-related information.
- View available account details.

5. Fund Transfer

Internet banking can facilitate electronic fund transfers through applicable systems.

Common systems include:

NEFT

National Electronic Funds Transfer

Used for electronic transfer of funds between participating bank accounts.

RTGS

Real Time Gross Settlement

Used for real-time processing of eligible transactions, particularly high-value transfers, subject to applicable rules and limits.

IMPS

Immediate Payment Service

Provides immediate electronic fund transfers through participating banks/channels, subject to applicable conditions.

UPI

UPI is a separate interoperable payment infrastructure that is primarily used through participating apps and channels; some banks integrate UPI-related services with their broader digital banking ecosystem.

6. Bill Payments

Internet banking allows customers to pay eligible:

- Electricity bills
- Water bills
- Telephone bills
- Mobile bills
- Insurance premiums
- Tax payments
- Other utility/service bills

This reduces the need to visit payment centers.

7. Online Shopping and Payments

Customers can use their:

- Debit cards
- Credit cards
- Internet banking payment options
- UPI/payment interfaces

for eligible online purchases.

Secure authentication mechanisms may be required.

8. Fixed Deposits and Other Deposits

Depending on the bank, customers can:

- Open eligible fixed deposits.
- Renew deposits.
- View deposit details.
- Give maturity instructions.
- Open/manage recurring deposits.

This makes deposit management easier.

9. Loan Services

Internet banking may allow customers to:

- View outstanding loan amounts.
- Check EMI information.
- Download loan statements.
- Make loan repayments.
- Submit eligible loan applications.
- Track loan-related requests.

Some banks also offer digital loan processing.

10. Card Services

Internet banking may allow customers to:

- View card details.
- Block a card.
- Request replacement.
- Set/manage transaction controls.
- Manage domestic/international usage where available.
- View card transactions.
- Make credit-card payments.

11. Cheque Services

Depending on the bank, customers may be able to:

- Request a cheque book.
- View cheque status.
- Stop payment on an eligible cheque.
- View issued/cleared cheque information.
- Manage certain cheque-related requests.

12. Digital Statements and Certificates

Internet banking may provide:

- Account statements
- Interest certificates
- Loan statements
- Tax-related certificates/documents
- Transaction histories
- Other electronic documents - This reduces paperwork.

13. Online Customer Service

Customers can submit various service requests, such as:

- Change/update certain contact details.
- Request account-related services.
- Raise complaints.
- Track service requests.
- Request cheque books.
- Block cards.
- Make other eligible requests.

The exact services vary between banks.

14. Authentication in Internet Banking

Security is one of the most important aspects of internet banking.

Authentication may involve:

1. User ID

Identifies the customer.

2. Password

Used to authenticate access.

3. OTP

One-Time Password may be required for certain login or transaction processes.

4. Transaction password/PIN

Some banks use additional authentication for transactions.

5. Multi-factor authentication

More than one authentication factor may be used to strengthen security.

6. Device/browser controls

Banks may use additional security mechanisms to identify trusted devices or detect suspicious activity.

15. Types of Internet Banking

A. Informational Internet Banking

Provides information such as:

- Interest rates
- Product information
- Branch/ATM information
- Bank policies
- Account-related information

There may be little or no transaction functionality.

B. Communicative Internet Banking

Allows interaction between customer and bank, such as:

- Service requests
- Complaints
- Enquiries
- Online communication

C. Transactional Internet Banking

Allows actual financial transactions such as:

- Fund transfers
- Bill payments
- Deposit management
- Loan payments
- Other banking transactions

This is the most important form of internet banking from a transaction perspective.

16. Internet Banking vs Mobile Banking

Feature	**Internet Banking**	**Mobile Banking**
Main access	Website/online platform	Mobile app/mobile channels
Device	Computer, tablet or mobile	Mainly smartphone/mobile
Internet	Generally required	App may use internet; SMS/USSD can work differently
Portability	Good	Very high
Interface	Usually browser-based	Usually app-based
Services	Broad range	Broad and increasingly comprehensive
UPI	May be integrated indirectly/through bank ecosystem	Very commonly integrated

Important

Both are forms of digital banking.

17. Internet Banking vs Traditional Banking

Traditional Banking	**Internet Banking**
Branch visit	Remote access
Physical forms	Electronic forms
Paper records	Digital records
Staff-assisted	Mostly self-service
Limited branch hours	Many services available 24×7
Physical infrastructure	Digital infrastructure
Higher routine transaction cost	Lower marginal transaction cost

18. Advantages of Internet Banking

A. Convenience

Customers can perform many transactions without visiting a branch.

B. Time saving

Customers avoid:

- Travel
- Queues
- Paperwork for routine services

C. 24×7 access

Many services can be accessed outside normal branch hours.

D. Faster transactions

Electronic payments can be initiated quickly.

E. Lower cost

Digital transactions can be cheaper for both banks and customers than some traditional branch-based processes.

F. Transparency

Electronic transaction records provide:

- Transaction history
- Digital receipts
- Account statements
- Audit trails

G. Wider reach

Internet banking allows banks to serve customers beyond the physical branch network.

19. Internet Banking and Financial Inclusion

Internet banking can support financial inclusion by making banking services accessible without a physical branch.

However, there is an important limitation:

Not every customer has:

- Internet connectivity
- Smartphone/computer access
- Digital literacy
- Sufficient confidence using online banking

Therefore, internet banking should work alongside:

Branches + BCs + ATMs + Micro-ATMs + Mobile Banking + Other assisted channels

This creates a **multi-channel financial inclusion model**.

20. Security Risks in Internet Banking

Internet banking can expose customers to several cyber threats.

Major risks

1. **Phishing** – fraudulent websites/emails designed to steal information.
2. **Smishing** – fraudulent SMS messages.
3. **Vishing** – fraudulent voice calls.
4. **Malware** – malicious software that can compromise devices.
5. **Fake banking websites/apps**.
6. **Credential theft**.
7. **Man-in-the-middle attacks**.

8. **Identity theft**.
9. **Social engineering**.
10. **Unauthorized transactions**.

21. Safe Internet Banking Practices

Customers should:

- Access the bank through its **official website/app**.
- Check the website address before entering credentials.
- Use strong passwords.
- Change passwords when necessary.
- Never share passwords, PINs or OTPs.
- Avoid banking through public/untrusted computers.
- Avoid suspicious links.
- Keep operating systems and browsers updated.
- Use device security features.
- Log out after completing banking sessions, especially on shared devices.
- Monitor account alerts and statements.
- Report suspicious/unauthorized transactions immediately.

Never do this:

A legitimate bank employee should not require you to disclose your confidential OTP, PIN or password to complete a transaction.

22. Role of Banks in Internet Banking Security

Banks should provide appropriate security measures such as:

- Strong customer authentication.
- Encryption/security controls.
- Transaction monitoring.
- Fraud detection.
- Alerts and notifications.
- Secure login mechanisms.
- Risk-based controls.
- Customer awareness campaigns.
- Complaint and dispute-resolution mechanisms.

23. Internet Banking and BC Model

Internet banking and the **Business Correspondent model** complement each other.

Internet banking

Customer → Internet → Bank

BC model

Customer → BC → Banking device → Bank

For customers with low digital literacy or limited internet access, the BC provides a **human interface**.

Thus:

Internet banking provides self-service digital access, while the BC model provides assisted last-mile banking.

24. Internet Banking and Digital Financial Inclusion

The relationship can be represented as:

Internet + Mobile + CBS + Payment Systems

↓

Digital Banking

↓

Lower Cost + Wider Reach + Convenience

↓

Greater Access to Financial Services

↓

Financial Inclusion

25. Limitations of Internet Banking

Despite its benefits, internet banking has limitations:

Technical

- Internet outage
- Server downtime
- Device problems
- Power failure

Digital divide

- Lack of internet access
- Lack of computers/smartphones
- Low digital literacy

Security

- Cyber fraud
- Phishing
- Malware
- Identity theft

Human factors

- Password loss
- Incorrect beneficiary details
- Accidental transactions
- Lack of awareness

Therefore, customers need both **technology and financial/digital literacy**.

26. Importance for Businesses

Internet banking is particularly useful for businesses.

Businesses can use it for:

- Salary payments
- Vendor payments
- Tax payments
- Collections
- Fund transfers
- Account reconciliation
- Statements

- Cash-flow management
- Trade-related banking services

This improves operational efficiency.

27. Importance for Banks

Internet banking enables banks to:

- Reduce branch workload.
- Automate routine transactions.
- Reduce operating costs.
- Serve more customers.
- Increase digital transactions.
- Improve customer experience.
- Collect transaction data for service improvement.
- Expand geographical reach without proportionately expanding branches.

28. Exam-Oriented Short Answer

Definition

Internet banking is a facility through which customers access and perform banking transactions through the internet using a bank's authorized online platform, without physically visiting the branch for routine services.

Major services

Account enquiry → Statements → Fund transfer → NEFT/RTGS/IMPS → Bill payment → Deposits → Loan services → Card management → Cheque services → Service requests

Major advantages

1. Convenience
2. 24×7 access to many services
3. Faster transactions
4. Lower cost
5. Reduced branch visits
6. Paperless banking
7. Greater transparency
8. Wider geographical reach
9. Improved customer service
10. Support for financial inclusion

Major risks

1. Phishing
2. Smishing
3. Vishing
4. Malware
5. Identity theft
6. Credential theft
7. Unauthorized transactions
8. Social engineering

Internet Banking in One Diagram
Customer
↓
Computer / Smartphone
↓
Internet
↓
Bank's Secure Online Platform
↓
Authentication
↓
Core Banking / Payment Systems
↓
Transaction Processing
↓
Confirmation / Digital Record
One-line conclusion
Internet banking converts traditional branch-based banking into a convenient, faster, lower-cost and technology-driven service, while requiring strong cybersecurity, customer awareness and effective grievance redressal to ensure safe and inclusive banking.

Automated Teller Machines (ATMs) — Complete Notes
1. What is an ATM?
ATM (Automated Teller Machine) is an electronic self-service banking terminal that allows customers to perform certain banking transactions without direct assistance from bank staff.
An ATM is generally connected electronically to the bank's systems and enables customers to access eligible services using a **debit/ATM card and authentication**, or through other supported mechanisms.
Simple definition
An ATM is a self-service electronic banking machine that enables customers to perform cash and other permitted banking transactions without visiting a bank counter.

2. Need for ATMs
ATMs were introduced primarily to provide:
- **24×7 access** to cash and selected banking services.
- Convenience to customers.
- Reduced dependence on bank counters.
- Faster routine transactions.
- Wider geographical banking access.
- Reduced workload at branches.
- Greater customer self-service.

ATMs are particularly useful for customers who need cash outside normal branch hours.

3. Major Services Provided by ATMs

Depending on the machine and bank, an ATM may provide:

Cash-related services

- Cash withdrawal
- Cash deposit in cash-enabled machines
- Cash recycling in Cash Recycler Machines

Account-related services

- Balance enquiry
- Mini statement
- Account information

Other services

- PIN-related services
- PIN change
- Card-related services
- Bill payments, where supported
- Fund transfers, where supported
- Other bank-specific services

The exact services vary by ATM and bank.

4. How an ATM Works

A simplified ATM transaction is:

Customer inserts/taps card
↓
Card is authenticated
↓
Customer enters PIN/required authentication
↓
ATM sends transaction request to banking/payment network
↓
Bank authorizes transaction
↓
ATM dispenses cash / provides service
↓
Transaction confirmation/receipt

5. Main Components of an ATM

An ATM generally contains:

- Card reader
- Display screen
- Keypad
- Cash dispenser
- Cash cassette
- Receipt printer
- Security system
- Network/communication equipment

- Camera, where installed
- Biometric/other authentication equipment in certain machines

6. Types of ATMs in India

ATMs can be classified in several ways.

One important classification is based on **location and operating model**.

A. On-site ATM

An **on-site ATM** is located **within or attached to a bank branch premises**.

Example

A bank branch operates from a building and an ATM is installed immediately outside/within the branch premises.

Advantages

- Convenient for branch customers.
- Easy access to bank infrastructure.
- Easier servicing and monitoring.
- Useful for customers outside branch working hours.

7. Off-site ATM

An **off-site ATM** is installed **away from the bank's branch premises**.

Examples:

- Shopping centres
- Railway stations
- Airports
- Markets
- Residential areas
- Business districts
- Educational institutions
- Rural/semi-urban locations

Advantages

- Wider geographical reach.
- Convenient access.
- Reduces pressure on branch counters.
- Brings banking services closer to customers.

8. White Label ATM (WLA)

A **White Label ATM** is an ATM set up and operated by a **non-bank ATM operator**, under the applicable regulatory framework, while customers of participating banks can use the ATM.

The ATM may not carry the branding of the customer's bank.

Key idea

Bank customer → WLA → Banking/payment network → Customer's bank

Purpose

WLAs help expand ATM infrastructure, particularly in areas where banks may not independently find it economical to establish ATMs.

9. Brown Label ATM

Under a **Brown Label ATM** arrangement, the hardware/ATM infrastructure and certain operational responsibilities are handled by a service provider, while the bank is responsible for key banking functions and cash management arrangements according to the contract.

Important

The exact responsibilities between the bank and service provider depend on the arrangement.

10. Cash Recycler Machine (CRM)

A **Cash Recycler Machine** can perform both:

- Cash deposit
- Cash withdrawal

It can accept deposited currency notes and, subject to authentication and machine controls, make suitable notes available for subsequent withdrawals.

Advantage

It can reduce:

- Cash-handling workload
- Cash replenishment frequency
- Operational costs

CRMs can be useful in both **urban and semi-urban areas**, particularly where cash demand is substantial.

11. Cash Deposit Machine (CDM)

A **Cash Deposit Machine** primarily allows customers to deposit cash electronically without approaching a teller.

Benefits

- Reduces branch counter workload.
- Extends service availability.
- Provides convenient cash deposit.
- Can operate beyond branch counter hours.

12. Micro-ATM — Important Distinction

A **Micro-ATM is not the same as a conventional ATM.**

A Micro-ATM is generally a **portable/handheld banking device used by a Business Correspondent (BC)** to provide permitted banking services.

It can be particularly useful in:

- Villages
- Remote locations
- Areas without conventional ATM infrastructure
- Last-mile financial inclusion

Typical arrangement

Bank → BC → Micro-ATM → Customer

13. ATMs in Urban Areas

Urban areas generally have:

- Better internet connectivity
- Reliable electricity
- Higher transaction volumes

- Greater population density
- More commercial locations
- Higher demand for cash and digital services

Therefore, banks/operators can economically deploy larger numbers of conventional ATMs and specialized machines.

Common urban ATM locations

- Bank branches
- Shopping malls
- Markets
- Railway stations
- Metro stations
- Airports
- Office complexes
- Universities
- Hospitals
- Petrol stations
- Residential/commercial complexes

Common urban machines

On-site ATM + Off-site ATM + WLA + Brown Label ATM + Cash Recycler + Cash Deposit Machine

14. ATMs in Rural Areas

Rural areas present different challenges:

- Lower population density
- Lower transaction volume in some locations
- Greater distance between settlements
- Limited electricity reliability in some areas
- Connectivity problems
- Higher cash-management/logistics costs
- Limited access to technical support

Therefore, banks may use a **combination of conventional ATMs and assisted banking channels**.

Rural ATM locations

- Rural bank branches
- Business Correspondent locations
- Local markets
- Village centres
- Agricultural markets
- Post-office-linked locations, where applicable
- Other high-footfall locations

15. Rural ATMs and Micro-ATMs

For rural financial inclusion, a Micro-ATM operated by a BC can sometimes be more practical than establishing a full conventional ATM.

Conventional ATM
Fixed machine → requires infrastructure + electricity + connectivity + cash management
Micro-ATM
BC + portable device → customer
This can reduce the cost of providing last-mile banking access.

16. Urban vs Rural ATM Model

Particular	Urban Areas	Rural Areas
Population density	Generally high	Generally lower
Transaction volume	Generally high	May be lower
Connectivity	Generally better	May be weaker
Electricity	Generally reliable	May have limitations in some locations
ATM density	Generally higher	Generally lower
Conventional ATMs	Common	Used where economically viable
Cash recyclers/CDMs	More common	Increasingly used where viable
BC/Micro-ATM	Supplementary	Very important
Main challenge	Volume, security, congestion	Cost, connectivity, cash logistics
Key objective	Convenience & efficiency	Accessibility & inclusion

17. ATM vs Micro-ATM
This is a very important examination distinction.

Feature	ATM	Micro-ATM
Nature	Fixed electronic terminal	Portable/handheld device
Operator	Mostly self-service	Usually BC/agent-assisted
Location	Fixed	Can be mobile/at BC location
Infrastructure	Higher	Lower
Cash handling	Machine-based	BC-managed within authorized limits/processes
Rural use	Useful	Particularly useful for last-mile access
Financial inclusion	Important	Very important
Human assistance	Generally, no	Generally, yes

18. ATM Security
ATM security is essential because ATMs deal directly with money and customer authentication.
Major risks

- Card skimming
- Card trapping
- PIN theft
- Shoulder surfing
- Cash theft
- ATM tampering

- Fake devices
- Cyberattacks
- Unauthorized withdrawals

Customer precautions

Customers should:

- Cover the keypad while entering their PIN.
- Check the ATM for suspicious attachments.
- Avoid accepting assistance from strangers.
- Never disclose their PIN.
- Collect their card after the transaction.
- Take the receipt where required.
- Check account alerts.
- Report suspicious/unauthorized transactions promptly.

19. ATM Failure and Failed Transactions

Common ATM problems include:

- Cash not dispensed.
- Account debited but cash not received.
- Partial cash dispensed.
- Card retained.
- Transaction timed out.
- Receipt not generated.
- Network failure.
- ATM out of cash.

Important principle

If the customer's account is **debited but cash is not received**, the customer should report the transaction through the bank's prescribed complaint/dispute mechanism.

The customer should retain the transaction details/reference number where available.

20. ATM and Interoperability

A customer can often use an ATM operated by another bank/network rather than only their own bank's ATM, subject to applicable rules, charges and transaction limits.

This interoperability makes the ATM network more useful to customers.

21. Role of ATMs in Financial Inclusion

ATMs contribute to financial inclusion by providing:

- Cash access
- Account information
- Basic banking services
- Greater geographic reach
- Reduced branch dependency

However, conventional ATMs alone cannot solve all financial-inclusion problems.

For customers in remote or underserved areas, a broader ecosystem is needed:

Bank Branch + BC + Micro-ATM + ATM + Mobile Banking + UPI + Digital Banking

22. ATMs and Digital Banking

ATM banking is one component of digital/self-service banking.

Traditional banking

Customer → Teller → Branch

ATM banking

Customer → ATM → Banking system

Mobile banking

Customer → Smartphone → Digital banking system

BC banking

Customer → BC → Micro-ATM → Bank

All four channels complement one another.

23. Importance of ATMs for Banks

ATMs help banks:

- Reduce routine teller transactions.
- Extend service availability.
- Reduce branch congestion.
- Improve customer convenience.
- Provide wider geographical access.
- Automate routine transactions.
- Support cash management.

24. Limitations of ATMs

- Installation and maintenance cost.
- Cash replenishment cost.
- Security risks.
- Network dependence.
- Electricity dependence.
- Machine breakdowns.
- Limited services compared with branches.
- Not always economical in low-volume locations.

This is why **Micro-ATMs and BCs are particularly important in low-density and remote areas**.

25. Types of ATMs — Quick Revision Table

Type	Meaning	Typical use
On-site ATM	At/within bank branch premises	Urban & rural branches
Off-site ATM	Away from branch	Markets, malls, stations, villages
White Label ATM	Operated by non-bank ATM operator	Wider ATM network
Brown Label ATM	ATM infrastructure/service arrangement with bank involvement	Cost-efficient deployment
Cash Recycler	Deposit + withdrawal	High cash-volume locations
Cash Deposit Machine	Primarily cash deposits	Branches/business locations
Micro-ATM	Portable BC-operated banking device	Rural/last-mile banking

26. Most Important Exam Distinctions
ATM vs Micro-ATM
ATM = Fixed, self-service machine
Micro-ATM = Portable, BC-assisted device
On-site vs Off-site
On-site = At branch
Off-site = Away from branch
White Label vs Brown Label
White Label = Non-bank operator operates ATM infrastructure
Brown Label = Service-provider/bank arrangement for ATM infrastructure and operations
ATM vs Cash Recycler
ATM = Primarily cash withdrawal + other services
Cash Recycler = Cash deposit + cash withdrawal

27. Exam-Ready Answer
An Automated Teller Machine (ATM) is an electronic self-service banking terminal that enables customers to perform cash withdrawal and other permitted banking transactions without visiting a bank counter. ATMs may be classified as on-site and off-site ATMs, while specialized arrangements include White Label ATMs, Brown Label ATMs, Cash Deposit Machines and Cash Recycler Machines. In urban areas, conventional ATMs, off-site ATMs, cash recyclers and deposit machines are commonly deployed because of higher population density and transaction volumes. In rural areas, conventional ATMs may be supplemented by Business Correspondents using Micro-ATMs because of lower transaction volumes, connectivity constraints and the need for low-cost last-mile banking.

Easy memory formula

ATM Types:

O – O – W – B – C – M

- **O** = On-site
- **O** = Off-site
- **W** = White Label
- **B** = Brown Label
- **C** = Cash Recycler/Cash Deposit
- **M** = Micro-ATM

Key conclusion

Urban ATM banking is generally based on fixed, high-volume self-service infrastructure, whereas rural financial inclusion often requires a combination of ATMs and low-cost assisted channels such as BCs and Micro-ATMs.

POS (Point-of-Sale) Terminals and Micro-ATMs — Complete Notes

POS terminals and Micro-ATMs are important **technology-enabled banking and payment channels** in India. Both can reduce dependence on conventional bank branches and help extend financial services to customers and merchants.

PART I — POS TERMINALS

1. What is a POS Terminal?

POS (Point-of-Sale) terminal is an electronic device used by a merchant or service provider to accept **digital/card-based payments** from customers.

It communicates with the relevant payment network and the customer's bank/card issuer to process the payment.

Simple definition

A POS terminal is an electronic payment device installed at a point of sale that enables a merchant to accept eligible card and other digital payments and receive transaction confirmation.

2. Main Components of a POS Terminal

A typical POS terminal may contain:

- Display screen
- Keypad/touchscreen
- Card reader
- EMV chip reader
- Contactless/NFC reader
- Printer
- Communication module
- SIM/mobile-data or Wi-Fi connectivity
- Security mechanisms

Some modern POS devices may also support QR-code payments.

3. Types of POS Terminals

A. Countertop POS

A fixed terminal placed at a merchant's counter.

Suitable for:

- Shops
- Supermarkets
- Restaurants
- Retail outlets

B. Portable POS

A wireless/mobile POS terminal that can be carried around within the merchant's premises.

Useful for:

- Restaurants
- Hotels
- Delivery services
- Large stores

C. Mobile POS (mPOS)
A smartphone/tablet-based payment solution using appropriate hardware/software to accept payments.
It can be useful for:

- Small merchants
- Delivery personnel
- Mobile businesses

D. Contactless POS
Supports **tap-and-pay** transactions using contactless cards or compatible devices.
Technology generally uses **NFC (Near Field Communication)**.

E. Smart POS
Modern POS terminals may provide additional capabilities such as:

- QR payments
- Multiple payment methods
- Digital receipts
- Business applications
- Inventory-related functions, depending on the solution

4. How a POS Transaction Works
Example: Customer buys goods worth ₹1,000
Customer presents card/device
↓
Merchant enters ₹1,000
↓
Card inserted/tapped/swiped as applicable
↓
Customer authenticates if required
↓
POS sends transaction request
↓
Payment network/bank processes request
↓
Transaction approved/declined
↓
Receipt/confirmation generated

5. Methods of Payment Through POS
A. Chip card
Customer inserts an EMV chip card into the terminal.
B. Contactless card
Customer taps a compatible card on the terminal.
C. Magnetic stripe
Older technology involving a magnetic stripe; its use is much less common than chip/contactless methods.
D. QR code

Some POS devices or merchant solutions display a QR code that customers scan to make a digital payment.

6. Advantages of POS Terminals

For merchants

- Accept digital payments.
- Reduce dependence on cash.
- Improve transaction records.
- Increase payment convenience.
- Reduce cash-handling risks.
- Facilitate electronic reconciliation.

For customers

- Convenient payment.
- Reduced need to carry cash.
- Faster transactions.
- Multiple payment options.

For banks/payment ecosystem

- Promote digital payments.
- Increase electronic transaction volumes.
- Support formalization of merchant transactions.

7. POS Security

POS transactions require strong security.

Merchant should:

- Keep terminal secure.
- Never record customers' PINs.
- Ensure customers enter PINs privately.
- Check transaction confirmation.
- Reconcile transactions.
- Report suspicious activity.
- Never use unauthorized payment devices/software.

Customer should:

- Never disclose PIN.
- Check transaction amount before authentication.
- Keep transaction alerts.
- Report unauthorized transactions promptly.

8. Common POS Problems

Problem	Possible reason
Transaction declined	Bank/card/payment-network issue
Terminal offline	Connectivity failure
Card not read	Card/chip/terminal problem
Contactless not working	NFC/card/terminal issue
Receipt not printed	Paper/printer issue
Transaction pending	Network/system communication problem
Duplicate transaction concern	Repeated attempts

Important

If a POS transaction appears unsuccessful, the merchant should **check the transaction status before attempting the transaction again**, especially where the customer's account/card may already have been debited.

PART II — MICRO-ATM

9. What is a Micro-ATM?

A **Micro-ATM** is a **portable/handheld banking device**, generally operated by a **Business Correspondent (BC)** or authorized agent, to provide specified banking services to customers.

It is especially important for **last-mile financial inclusion**.

Simple definition

A Micro-ATM is a portable electronic banking terminal used by authorized BCs/agents to provide permitted banking transactions to customers, including cash-related services and account enquiries, using appropriate authentication.

10. Why Micro-ATMs are Needed

Traditional ATMs may be expensive to establish and maintain in locations with:

- Low population density
- Low transaction volumes
- Poor infrastructure
- Weak connectivity
- Limited electricity

A Micro-ATM allows a BC to take banking services closer to customers.

Model

Bank

↓

Business Correspondent

↓

Micro-ATM

↓

Customer

11. Main Components of a Micro-ATM

A Micro-ATM may include:

- Display
- Keypad/touchscreen
- Card reader
- Biometric scanner, where applicable
- Printer
- SIM/mobile connectivity
- Battery
- Banking application
- Secure authentication mechanism

The exact configuration varies by provider and banking arrangement.

12. Services Through Micro-ATMs

Depending on the bank's authorization and system, a Micro-ATM may facilitate:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Fund transfer
- Other permitted banking services

The precise services and limits depend on the applicable banking arrangement.

13. Micro-ATM Using Debit Card

A simplified card-based transaction is:

Customer gives/inserts card
↓
BC selects service
↓
Customer enters PIN where applicable
↓
Transaction sent to bank/payment network
↓
Bank authenticates/authorizes
↓
Transaction completed
↓
Receipt generated

The customer should enter confidential credentials such as PIN directly and should not disclose them to the BC.

14. Micro-ATM Using Biometric Authentication

For applicable Aadhaar-enabled services:

Customer identification

↓

Aadhaar-based authentication

↓

Biometric verification

↓

Transaction request

↓

Bank/payment system response

↓

Transaction completion

The BC must follow prescribed authentication and customer-protection procedures.

15. Micro-ATM and AePS

The Micro-ATM can act as a **customer interface for AePS services**, where supported.

AePS = Aadhaar Enabled Payment System

It can enable eligible customers to access services such as:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Other permitted services

subject to applicable rules and authentication requirements.

16. Micro-ATM vs ATM

This distinction is very important.

Feature	**ATM**	**Micro-ATM**
Nature	Fixed electronic machine	Portable/handheld device
Customer interaction	Self-service	Usually BC-assisted
Location	Fixed	BC location/mobile
Operator	Customer	BC/authorized agent
Infrastructure	Relatively high	Relatively low
Rural use	Useful	Particularly useful for last-mile banking
Human assistance	Normally absent	Present
Financial inclusion	Important	Very important

Memory aid

ATM = Machine + Customer

Micro-ATM = BC + Machine + Customer

17. POS vs Micro-ATM

Another important examination distinction:

Feature	POS Terminal	Micro-ATM
Main purpose	Merchant payment acceptance	Banking services
Primary user	Merchant	BC/agent
Main customer activity	Purchase/payment	Withdrawal/deposit/enquiry etc.
Typical location	Shop/business	BC point/village/remote area
Cash withdrawal	Generally, not its primary function	Important function were permitted
Financial inclusion	Supports digital payments	Strong last-mile banking role
Authentication	Card/device authentication	Card/biometric authentication as applicable

Simple distinction

POS = Pay for goods/services

Micro-ATM = Access banking services through a BC

18. Role of POS and Micro-ATM in Financial Inclusion

They serve complementary purposes.

POS

Merchant → Digital payment acceptance

Micro-ATM

Customer → BC → Banking service

Together they promote:

- Digital payments
- Reduced cash dependence
- Banking access
- Last-mile financial inclusion
- Formal financial transactions

19. Basic Connectivity Issues

Both devices depend on communication networks.

Common problems

- Weak mobile signal
- SIM/data failure
- Wi-Fi failure
- Server downtime
- Network congestion
- Device software problem

Basic troubleshooting
Check battery
↓
Check network signal
↓
Check mobile data/SIM
↓
Check device/application
↓
Check transaction status
↓
Retry only according to prescribed procedure
↓
Escalate if unresolved

20. Failed Transactions
A particularly important issue is:
Customer account debited but transaction not completed
For example:
Customer attempts ₹5,000 withdrawal through Micro-ATM → account is debited → connectivity fails → BC receives no confirmation/cash is not properly delivered.
The BC **must not simply repeat the transaction**.
The transaction status should first be checked and the prescribed dispute/reversal/escalation procedure followed.
This protects customers from possible **duplicate debits**.

21. Security Requirements for BCs
BCs using Micro-ATMs should:
- Keep device credentials confidential.
- Never share passwords.
- Never ask customers for confidential PINs/OTPs.
- Follow proper customer authentication.
- Protect biometric equipment and customer data.
- Keep the device physically secure.
- Reconcile cash and electronic records.
- Provide transaction confirmation/receipt.
- Report suspicious transactions.
- Report lost/stolen devices immediately.

22. Cash Management in Micro-ATM Banking

Where cash withdrawal/deposit services are permitted, BCs need proper cash management.

BC should maintain:

Opening cash

- **Cash received**
  − **Cash paid to customers**
  = **Expected closing cash**

The physical cash should reconcile with the system and transaction records.

Any discrepancy should be reported according to the bank's procedure.

23. POS and Micro-ATM — Role in Rural and Urban Areas

Area	POS	Micro-ATM
Urban	Very common among merchants	Used where BC-assisted services are needed
Semi-urban	Growing use	Important
Rural	Useful for merchants accepting digital payments	Particularly important for last-mile banking
Remote areas	Depends on connectivity/merchant ecosystem	Can be highly useful through BC network

24. Advantages of Micro-ATM

For customers

- Banking closer to home
- Reduced travel
- Convenience
- Cash access
- Basic account services
- Useful where conventional ATM infrastructure is limited

For banks

- Lower infrastructure requirement
- Wider reach
- Support for financial inclusion
- Ability to serve low-volume areas
- BC-assisted service delivery

For rural economy

- Better access to formal banking
- Easier access to government benefits
- Increased transaction convenience
- Reduced dependence on informal financial channels

25. Limitations of Micro-ATMs

- Dependence on mobile connectivity.
- Dependence on device battery.
- BC cash availability can be limited.
- Device malfunction.
- Customer awareness may be low.

- Biometric authentication may sometimes fail.
- Security/fraud risks.
- Requires effective bank supervision.

Therefore, the Micro-ATM must be supported by **reliable technology, trained BCs, adequate cash management and customer protection**.

26. POS + Micro-ATM + ATM — Quick Comparison

Feature	ATM	POS	Micro-ATM
Primary purpose	Customer self-service banking	Merchant payment acceptance	BC-assisted banking
Main user	Customer	Merchant	BC
Location	Fixed	Merchant premises	BC/customer location
Cash withdrawal	Yes	Not primary	Yes, where permitted
Merchant payments	Usually not primary	Yes	Not primary
Deposit	Some machines	No	Where permitted
Biometric	Some specialised machines	Generally not primary	Common in applicable services
Last-mile inclusion	Moderate	Payment inclusion	**High**
Human assistance	No	Merchant assists	**Yes**

27. Exam-Ready Definitions

POS Terminal

A POS terminal is an electronic device used by merchants to accept and process eligible card and digital payments from customers and obtain transaction confirmation through the payment network.

Micro-ATM

A Micro-ATM is a portable banking terminal operated by an authorized Business Correspondent or agent to provide specified banking services, such as cash withdrawal, cash deposit and account enquiries, using appropriate authentication.

28. Most Important Points for Exams

POS

Merchant + Payment + Card/QR + Digital Transaction

Micro-ATM

BC + Banking Device + Authentication + Cash/Account Services

ATM

Customer + Fixed Self-Service Machine

Remember:

POS facilitates payments at the point of sale; Micro-ATM brings banking services to the customer's doorstep through a BC; ATM provides fixed self-service banking access.

This distinction is especially important when studying **IT-enabled financial inclusion and the Business Correspondent model**.

Types of POS (Point-of-Sale) Terminals

A **POS terminal** is an electronic device used to accept and process payments from customers at a point of sale. In India, POS terminals are used by shops, restaurants, petrol stations, hospitals, offices, e-commerce delivery personnel and other merchants.
POS terminals can be classified **by connectivity, technology, mobility and payment method**.

1. Fixed / Countertop POS Terminal
A **fixed POS terminal** is installed permanently at a merchant's billing counter.
Features:

- Connected to electricity.
- Usually connected through broadband, Ethernet or another communication channel.
- Suitable for high-volume merchants.
- Common in supermarkets, retail stores and large businesses.

Example: A supermarket billing counter where the customer inserts/taps a card on the terminal.

2. Portable POS Terminal
A **portable POS** is a wireless terminal that can be carried within the merchant's premises.
Features:

- Battery-operated.
- Uses Wi-Fi, mobile network or other wireless connectivity.
- Useful where payment needs to be collected away from a fixed counter.

Common locations:

- Restaurants
- Hotels
- Hospitals
- Large retail stores

3. Mobile POS (mPOS)
mPOS refers to a mobile-based POS solution that uses a smartphone/tablet, often with appropriate payment hardware or software.
Features:

- Portable.
- Relatively low infrastructure requirement.
- Useful for small/mobile merchants.
- Can use mobile internet.

Examples:

- Delivery personnel
- Street/mobile merchants
- Small businesses
- Service providers

4. Wireless POS Terminal

A **wireless POS** communicates with the payment system without a fixed wired connection.

It may use:

- Mobile data
- Wi-Fi
- Other wireless communication technologies

Advantage

The merchant can move the terminal around instead of keeping it permanently connected to a counter.

5. GPRS / SIM-Based POS

These POS terminals use a **SIM/mobile network** for communication.

They are useful where:

- Fixed broadband is unavailable.
- The merchant needs mobility.
- Mobile-network coverage is adequate.

This type can be particularly useful for mobile or semi-urban/rural merchants.

6. Contactless POS Terminal

A **contactless POS terminal** supports tap-based payments using technologies such as **NFC (Near Field Communication)**.

The customer can tap:

- A contactless debit card.
- A contactless credit card.
- A compatible mobile/wearable device.

Benefits

- Fast
- Convenient
- Reduced physical handling
- Suitable for quick transactions

7. EMV / Chip-and-PIN POS Terminal

These terminals support **EMV chip cards**.

The customer inserts the chip card into the terminal and may authenticate the transaction with a PIN, depending on the transaction requirements.

Advantage

Chip technology provides stronger security than older magnetic-stripe-only transactions.

8. Magnetic-Stripe POS Terminal

Older POS terminals could process cards using the **magnetic stripe**.

The card is swiped through the reader.

Important

Magnetic-stripe-only processing is an older technology and has largely been supplemented by **EMV chip and contactless technology**.

9. Smart POS Terminal

A **Smart POS** is an advanced POS terminal that can run applications and support multiple payment methods and business functions.

Depending on the provider, it may support:

- Card payments
- Contactless payments
- QR payments
- Digital receipts
- Merchant applications
- Inventory-related functions
- Loyalty programmes
- Other business services

10. Android POS Terminal

An **Android POS** uses the Android operating system and generally has a touchscreen.

It can provide:

- Card payments
- Contactless payments
- QR payments
- Business applications
- Digital receipts
- Merchant-management functions

It is more versatile than a traditional keypad-based POS.

11. QR-Code POS / QR Payment Terminal

A merchant can accept payment through a **QR code** displayed on a POS device or associated merchant system.

The customer:

Scans QR → Enters/confirms amount → Authenticates → Payment completed

In India, this is particularly important because of the widespread use of **UPI**.

Important distinction

A **QR code itself is not necessarily a POS terminal**. It is a payment acceptance mechanism that may be integrated with a POS solution.

12. Integrated POS Terminal

An integrated POS connects the payment terminal with the merchants:

- Billing system
- Point-of-sale software
- Inventory system
- Accounting system

This allows the payment amount to flow directly from the billing system to the payment terminal.

Benefit

It reduces manual entry and helps prevent errors.

13. Unattended POS Terminal

An **unattended POS terminal** operates without a cashier being present.
Examples include payment terminals at:

- Parking facilities
- Vending machines
- Ticket machines
- Self-service kiosks
- Automated service points

The customer performs the payment independently.

Quick Classification

Type	Main feature	Typical use
Fixed/Countertop POS	Permanently installed	Shops, supermarkets
Portable POS	Battery-powered and movable	Restaurants, hotels
mPOS	Mobile/smartphone-based	Small/mobile merchants
Wireless POS	Wireless connectivity	Mobile/indoor use
GPRS/SIM POS	Mobile-network connectivity	Areas without fixed internet
Contactless POS	Tap/NFC payments	Retail, transit, quick-service
EMV POS	Chip-card transactions	General merchant payments
Magnetic-stripe POS	Swipe technology	Older systems
Smart POS	Advanced multi-function terminal	Modern businesses
Android POS	Android touchscreen	Modern retail
QR-enabled POS	QR payment acceptance	UPI/merchant payments
Integrated POS	Connected to billing/ERP	Large businesses
Unattended POS	Self-service	Vending, parking, kiosks

Another useful classification
By mobility
Fixed → Portable → Mobile
By connectivity
Wired → Wi-Fi → SIM/GPRS/mobile data
By payment technology
Magnetic stripe → EMV chip → Contactless/NFC → QR
By sophistication
Basic POS → Smart POS → Integrated POS

POS vs Micro-ATM — Important for BC/BF Exams

POS	Micro-ATM
Primarily a **merchant payment acceptance** device	Primarily a **banking service** device
Used at point of sale	Generally operated by BC/agent
Mainly facilitates customer payments	Can facilitate cash withdrawal/deposit and account services were permitted
Customer pays merchant	Customer accesses banking service
Card/QR/contactless payments	Card/biometric authentication as applicable
Common in retail/businesses	Particularly important for last-mile financial inclusion

Easy memory
POS = Payment at Point of Sale
Micro-ATM = Banking at the Last Mile
Aadhaar Seeding and e-KYC
Aadhaar Seeding and **e-KYC (Electronic Know Your Customer)** are two important concepts in India's digital banking and financial-inclusion ecosystem. They are related, but **they are not the same thing**.

1. Aadhaar Seeding
Meaning
Aadhaar seeding means linking a customer's **Aadhaar number with a bank account or another eligible financial/service record**, in accordance with the applicable process and customer's consent/authorization where required.
In banking, Aadhaar seeding is particularly relevant for **financial inclusion, DBT and Aadhaar-enabled services**.
Simple definition
Aadhaar seeding is the process of associating a customer's Aadhaar number with an eligible bank account or other permitted record for specified purposes.

2. Why is Aadhaar Seeding Important?
Aadhaar seeding can facilitate:
A. Direct Benefit Transfer (DBT)
Government benefits/subsidies can be transferred electronically to eligible beneficiaries.
Government → DBT system → Bank account → Beneficiary
Aadhaar-based mapping can be used in applicable DBT arrangements.

B. Aadhaar Enabled Payment System (AePS)
Aadhaar-enabled banking services can be accessed through authorized BCs and devices, subject to applicable requirements.
A customer may be able to use services such as:
- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement

through applicable AePS channels.

C. Financial Inclusion
Aadhaar-based identification and authentication can facilitate access to banking services, particularly for customers in remote areas when combined with:

- BCs
- Micro-ATMs
- Biometric devices
- Digital banking infrastructure

3. Aadhaar Seeding Process in Banking
The exact procedure varies depending on the bank and purpose, but generally involves:
Customer request/consent where applicable
↓
Aadhaar details provided through authorized channel
↓
Bank verifies/authenticates information as applicable
↓
Aadhaar linked/mapped to account or relevant record
↓
Status updated
Customers may be able to initiate Aadhaar linking through:

- Bank branch
- Internet banking
- Mobile banking
- ATM
- BC channel
- Other bank-authorized channels

The available methods differ by bank.

4. Aadhaar Seeding vs Aadhaar Authentication
These are different concepts.
Aadhaar Seeding
Linking/mapping Aadhaar to an account or record.
Aadhaar Authentication
Verifying an individual's identity using an Aadhaar-based authentication mechanism.
Therefore:
Seeding = linking
Authentication = verifying

5. Aadhaar Seeding vs Aadhaar Linking
In ordinary banking discussions, **"Aadhaar seeding" and "Aadhaar linking" are often used interchangeably** to describe associating Aadhaar with an account.
However, the precise technical process can differ depending on the purpose and system involved.

6. e-KYC

Meaning

e-KYC = Electronic Know Your Customer.

It is a technology-enabled process for obtaining and/or verifying customer identity information electronically in accordance with applicable KYC requirements.

Simple definition

e-KYC is the electronic process of establishing and verifying a customer's identity and obtaining required KYC information through authorized digital mechanisms.

7. Purpose of KYC

KYC (Know Your Customer) helps banks:

- Establish customer identity.
- Understand who the customer is.
- Prevent identity misuse.
- Reduce financial crime risks.
- Support AML/CFT controls.
- Maintain appropriate customer records.

8. What is e-KYC Used For?

e-KYC can facilitate:

- Opening bank accounts.
- Customer onboarding.
- Customer identification.
- Updating KYC information.
- Accessing eligible financial services.
- Faster digital processing.

It reduces dependence on purely paper-based processes.

9. Forms of Electronic KYC

Depending on the applicable regulatory framework and institution, electronic KYC processes can involve:

- Aadhaar-based mechanisms
- Digital identity/document verification
- OTP-based authentication were permitted
- Video-based Customer Identification Process (**V-CIP**)
- Other authorized electronic verification methods

Important

e-KYC is broader than Aadhaar alone.

Aadhaar can be one mechanism used in an electronic KYC process, but **e-KYC should not automatically be equated with Aadhaar**.

10. Aadhaar-Based e-KYC

In an applicable Aadhaar-based e-KYC process:

Customer provides required Aadhaar-related information/consent
↓
Authorized system performs prescribed authentication/verification
↓
Relevant KYC information is obtained/verified
↓
Bank completes KYC process according to applicable requirements

The precise procedure depends on the regulatory framework and the bank's authorized process.

11. e-KYC vs Traditional KYC

Traditional KYC	**e-KYC**
Greater dependence on physical documents	Electronic/digital process
Manual verification may be involved	Technology-assisted verification
More paperwork	Less paperwork
Can take longer	Often faster
Physical presence may be required depending on process	Can support remote onboarding through permitted methods
Physical records	Electronic records

Important: e-KYC does not mean that banks can ignore KYC requirements. It is simply a **technology-enabled way of fulfilling applicable KYC requirements**.

12. Aadhaar Seeding vs e-KYC

This distinction is extremely important.

Particular	**Aadhaar Seeding**	**e-KYC**
Meaning	Linking/mapping Aadhaar to an account/record	Electronic customer identification/KYC process
Main purpose	Enable specified Aadhaar-linked services	Establish/verify customer identity
Main activity	**Linking**	**Verification/onboarding**
Common use	DBT, applicable Aadhaar-enabled services	Account opening/KYC
Aadhaar necessary?	Yes, by definition	**Not necessarily**
Technology	Banking/identity mapping systems	Digital KYC/verification systems

Memory aid
Aadhaar Seeding = Link Aadhaar
e-KYC = Verify Customer Electronically

13. Role of BC/BF in Aadhaar Seeding and e-KYC

BCs can play an important last-mile role where the bank authorizes them to facilitate these activities.
A BC may:

- Assist customers with account-related Aadhaar seeding requests.
- Help customers understand the process.
- Facilitate applicable biometric authentication.
- Assist with digital/electronic KYC processes.
- Capture/submit required information through authorized devices.
- Provide acknowledgement/confirmation where applicable.

BC must NOT:

❌ Collect Aadhaar information for unauthorized purposes.
❌ Share customer information with unauthorized persons.
❌ Store sensitive information improperly.
❌ Bypass KYC requirements.
❌ Perform transactions without proper customer authentication/authorization.

14. Aadhaar Seeding and DBT

One of the major applications of Aadhaar linkage in banking is **Direct Benefit Transfer**.
A simplified chain is:

Government Scheme
↓
Eligible Beneficiary
↓
Aadhaar/account mapping as applicable
↓
DBT system
↓
Bank account
↓
Beneficiary receives funds

Benefits

- Faster transfer of benefits.
- Greater transparency.
- Reduced dependence on intermediaries.
- Easier identification/mapping in applicable systems.
- Improved last-mile delivery.

15. Aadhaar Seeding and AePS

The relationship can be understood as:

Aadhaar-related banking arrangement

↓

Authorized authentication

↓

AePS

↓

BC/Micro-ATM

↓

Customer

The customer can access eligible services through an authorized BC channel, subject to the relevant requirements.

16. Customer Consent and Privacy

Aadhaar-related information is sensitive and must be handled carefully.

Banks/BCs should follow applicable requirements concerning:

- Customer consent/authorization.
- Purpose limitation.
- Data confidentiality.
- Secure storage/handling.
- Access controls.
- Customer authentication.

Customers should understand **why their Aadhaar information is being requested and for what purpose**.

17. Risks in Aadhaar Seeding and e-KYC

A. Wrong account mapping

Aadhaar may be incorrectly linked/mapped.

B. Identity fraud

Fraudsters may attempt to misuse identity information.

C. Data leakage

Improper handling of personal information can create privacy risks.

D. Biometric/authentication failure

Authentication may fail because of technical or other reasons.

E. Social engineering

Fraudsters may impersonate bank officials and ask for Aadhaar/OTP/PIN details.

F. Unauthorized linking

Customers may be exposed to risk if Aadhaar is linked or used without proper authorization.

18. Safety Precautions for Customers

Customers should:

- Deal only with authorized bank/BC channels.
- Understand the purpose for which Aadhaar is being used.
- Check account/linking status where possible.
- Never disclose banking PINs or passwords.

- Never share OTPs with callers claiming to be bank officials.
- Keep transaction/service acknowledgements.
- Report suspicious activity immediately.

19. Aadhaar Seeding, e-KYC and Financial Inclusion

These technologies support financial inclusion by making banking processes:

Faster → Easier → More accessible → Less paper-dependent

The complete ecosystem can be represented as:

Aadhaar / Digital Identity

↓

e-KYC / Customer Verification

↓

Bank Account

↓

Aadhaar Seeding where applicable

↓

DBT / AePS / Digital Banking

↓

Financial Inclusion

20. Important Exam Questions and Answers

Q1. What is Aadhaar seeding?

Aadhaar seeding is the process of linking or mapping a customer's Aadhaar number with an eligible bank account or other permitted record for specified purposes.

Q2. What is e-KYC?

e-KYC is the electronic process of establishing and verifying a customer's identity and obtaining required KYC information through authorized digital mechanisms.

Q3. Is Aadhaar seeding the same as e-KYC?

No. Aadhaar seeding means **linking/mapping Aadhaar**, whereas e-KYC means **electronically performing customer identification/KYC**.

Q4. Is Aadhaar mandatory for e-KYC?

Not necessarily. e-KYC is a broader concept and can use different authorized electronic verification mechanisms. Aadhaar may be one of them.

Q5. What is the role of BC?

A BC can facilitate authorized Aadhaar-related and e-KYC processes, including customer assistance and authentication, while maintaining confidentiality, security and compliance with the bank's prescribed procedures.

Quick Revision Table

Term	Meaning	Memory word
KYC	Know Your Customer	**Identify**
e-KYC	Electronic KYC	**Digital verification**
Aadhaar Seeding	Linking/mapping Aadhaar	**Link**
Aadhaar Authentication	Verifying identity using Aadhaar-based authentication	**Verify**
AePS	Aadhaar Enabled Payment System	**Banking through authorized Aadhaar-enabled channel**
DBT	Direct Benefit Transfer	**Government benefit transfer**

Golden distinction

KYC tells the bank who the customer is. e-KYC does this electronically. Aadhaar seeding links Aadhaar to an eligible account/record. Aadhaar authentication verifies identity through an Aadhaar-based authentication mechanism.

APBS and AePS

APBS and **AePS** are two important Aadhaar-enabled systems used in India's digital payment and financial-inclusion ecosystem. Both involve Aadhaar, but their **purpose and transaction flow are different**.

- **APBS = Aadhaar Payment Bridge System**
- **AePS = Aadhaar Enabled Payment System**

A very easy distinction is:

APBS = Government/Institution → Beneficiary's bank account

AePS = Customer → Banking transaction through BC/authorized channel

1. APBS — Aadhaar Payment Bridge System

Meaning

APBS (Aadhaar Payment Bridge System) is a system that facilitates **Aadhaar-based routing of certain government benefits/subsidies to beneficiaries' bank accounts**.

It is operated as part of India's payment infrastructure under the NPCI ecosystem.

Simple definition

APBS is a payment-routing mechanism that enables eligible government benefits and subsidies to be electronically credited to beneficiaries' Aadhaar-linked bank accounts through the applicable Aadhaar mapping mechanism.

2. Purpose of APBS

The main purpose is to facilitate efficient delivery of **Direct Benefit Transfer (DBT)**.

Examples of government benefits can include eligible:

- Subsidies
- Welfare payments
- Scholarships
- Social-security benefits
- Other government Programme payments

The exact schemes using APBS depend on the government's payment arrangements.

3. How APBS Works

A simplified flow is:

Government Department / Sponsor

↓

Payment instructions

↓

APBS / Aadhaar mapping infrastructure

↓

Destination bank identified through Aadhaar mapping

↓

Beneficiary's eligible bank account

↓

Benefit credited

Key point

The Aadhaar number is used as a **routing/mapping identifier** in the applicable system rather than requiring the government department to maintain the beneficiary's bank-account number for every payment.

4. Role of Aadhaar Mapping in APBS

For APBS-based payments, the relevant Aadhaar-to-bank-account mapping is maintained through the applicable **NPCI mapper/banking infrastructure**.

Therefore, customers need to ensure that their Aadhaar is appropriately linked/mapped for the intended DBT arrangement.

Important distinction

Aadhaar seeding and **APBS** are not the same.

- **Aadhaar seeding** = linking/mapping Aadhaar to a bank account.
- **APBS** = payment-routing mechanism used for eligible Aadhaar-based DBT payments.

5. Benefits of APBS

For government

- Efficient electronic benefit distribution.
- Reduced cash handling.
- Improved payment processing.
- Greater transparency.
- Better targeting of eligible beneficiaries.

For beneficiaries

- Direct credit to bank accounts.
- Reduced dependence on intermediaries.
- Easier access to government benefits.
- Reduced travel and transaction costs.

For banks

- Electronic processing of large volumes of benefit payments.
- Centralized payment infrastructure.
- Better transaction records.

6. AePS — Aadhaar Enabled Payment System

Meaning

AePS (Aadhaar Enabled Payment System) is a bank-led model that enables customers to perform certain **banking transactions using Aadhaar-based authentication through an authorized BC/Banking Correspondent channel**.

Simple definition

AePS is an Aadhaar-enabled banking system through which customers can access specified banking services through authorized BCs and devices using Aadhaar-based authentication.

7. Main Services Through AePS

Depending on the participating bank, authorized channel and applicable rules, AePS can support:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Aadhaar-to-Aadhaar fund transfer, where applicable
- Other permitted banking services

The exact services and limits may vary.

8. How AePS Works

A simplified cash-withdrawal example:

Customer approaches BC

↓

Provides required Aadhaar/account-related details

↓

BC enters transaction on authorized Micro-ATM/device

↓

Customer undergoes prescribed authentication

↓

Request sent through payment infrastructure

↓

Customer's bank verifies/authorizes

↓

Transaction completed

↓

BC provides cash/confirmation where applicable

9. AePS and Micro-ATM

AePS is particularly useful when combined with a **Micro-ATM**.

Example

A customer living in a village may not have a nearby ATM.

Instead:

Customer

↓

BC

↓

Micro-ATM + biometric authentication

↓

AePS/payment infrastructure

↓

Customer's bank

↓

Cash withdrawal

This is an important example of **IT-enabled last-mile financial inclusion**.

10. APBS vs AePS

This is one of the most important examination distinctions.

Particular	**APBS**	**AePS**
Full form	Aadhaar Payment Bridge System	Aadhaar Enabled Payment System
Main purpose	Route eligible DBT payments	Provide customer banking services
Direction	Government/institution → beneficiary	Customer ↔ bank
Main user	Government departments/payment originators & beneficiaries	Bank customers/BCs
Typical transaction	Government benefit/subsidy credit	Cash withdrawal/deposit, balance enquiry etc.
BC involvement	Not the primary feature	**Very important**
Micro-ATM	Not the primary channel	**Commonly used**
Biometric authentication	Not necessarily the customer-facing transaction mechanism	Used in applicable AePS authentication
Financial inclusion	Benefit delivery	**Last-mile banking access**

11. APBS and DBT
The relationship is:
Government Scheme
↓
Eligible Beneficiary
↓
DBT Payment Instruction
↓
APBS / applicable Aadhaar mapping
↓
Destination Bank
↓
Beneficiary's Account
Example
Suppose an eligible beneficiary is entitled to a government subsidy.
The government initiates the payment → the payment is routed using the applicable Aadhaar mapping → the beneficiary's bank account is credited.

12. AePS and Financial Inclusion
The relationship is:
Bank
↓
BC / Agent
↓
Micro-ATM / authorized device
↓
AePS
↓
Customer
AePS is particularly useful for customers who:

- Live far from bank branches.
- Have limited access to ATMs.
- Need assisted banking.
- May have limited digital literacy.

13. APBS vs Aadhaar Seeding
Another important distinction:
Aadhaar Seeding
Link Aadhaar to a bank account.
APBS
Use the applicable Aadhaar mapping infrastructure to route eligible DBT payments.
Therefore:
Seeding → enables/establishes mapping
APBS → facilitates payment routing

14. AePS vs ATM

ATM	AePS
Fixed machine	Usually BC-assisted
Self-service	Assisted service
Card/PIN or other supported authentication	Aadhaar-based authentication in applicable services
Requires ATM infrastructure	Can use Micro-ATM/BC infrastructure
Mainly cash withdrawal and other ATM services	Various banking services
Useful in established locations	Particularly useful for last-mile inclusion

Easy memory
ATM = Customer + Machine
AePS = Customer + BC + Aadhaar-enabled authentication

15. Security and Customer Protection
Aadhaar-enabled banking requires careful handling of customer information and authentication.
BCs should:

- Use only authorized devices.
- Follow prescribed customer-identification procedures.
- Never misuse Aadhaar information.
- Maintain confidentiality.
- Provide transaction confirmation.
- Reconcile cash and electronic records.
- Report suspicious transactions.
- Follow the bank's security procedures.

Customers should:

- Deal only with authorized BCs/bank channels.
- Check the transaction amount before authentication.
- Retain transaction/reference details.
- Monitor SMS/account alerts.
- Report unauthorized transactions promptly.

Never disclose an OTP, PIN or password to someone claiming that it is required to complete a banking transaction.

16. Common Problems in AePS
Biometric failure
Possible reasons:

- Finger placement issue
- Scanner problem
- Poor biometric quality
- Connectivity/system issue

Network failure
The transaction may remain pending or fail.
Account debit but service not completed

The BC should **not blindly retry the transaction**. The transaction status should first be checked and the prescribed reversal/dispute process followed.

Wrong bank/account mapping

A customer may need to contact the bank through the appropriate channel to correct the mapping issue.

17. Advantages of APBS and AePS Together

Together, they support different sides of financial inclusion:

APBS

Government benefits → Bank account

AePS

Bank account → Customer access through BC

This creates a powerful ecosystem:

Government Benefit

↓

APBS/DBT

↓

Beneficiary's Bank Account

↓

BC + AePS + Micro-ATM

↓

Beneficiary accesses funds

18. APBS, AePS and BC Model

System	Role of BC
APBS	BC is not the central payment-routing mechanism
AePS	BC is an important last-mile service channel
Micro-ATM	Device commonly used by BC
DBT	BC can help beneficiary access/check benefits through authorized services

Thus, for **BC/BF examinations**, remember that **AePS has a much more direct relationship with the BC model than APBS**.

19. Quick Revision

APBS

Aadhaar Payment Bridge System

Purpose:

DBT / Government benefit payment routing

Direction:

Government → Beneficiary

Key word:

BRIDGE

AePS
Aadhaar Enabled Payment System
Purpose:
Banking transactions through authorized BC/agent channels
Direction:
Customer ↔ Bank
Key technology:
Aadhaar-based authentication + Micro-ATM/authorized device

20. One-Table Revision

Term	Full form	What does it do?	Remember as
Aadhaar Seeding	—	Links/mapping Aadhaar with eligible bank account/record	**LINK**
e-KYC	Electronic Know Your Customer	Electronic customer identification/KYC	**VERIFY**
APBS	Aadhaar Payment Bridge System	Routes eligible Aadhaar-based DBT payments	**BRIDGE**
AePS	Aadhaar Enabled Payment System	Enables specified banking services using Aadhaar-based authentication	**BANKING**
DBT	Direct Benefit Transfer	Transfers government benefits directly to beneficiaries	**BENEFIT**
Micro-ATM	—	Portable device used by BC for permitted banking services	**LAST MILE**

Golden formula
e-KYC = Verify → Aadhaar Seeding = Link → APBS = Route Benefits → AePS = Access Banking → BC/Micro-ATM = Last-Mile Delivery.
RuPay Cards — Complete Notes
1. What is RuPay?
RuPay is India's **domestic card payment network**, developed by the **National Payments Corporation of India (NPCI)**.
The name **RuPay** combines **"Rupee" + "Payment."**
It was launched to provide a domestic alternative for card payments and to support the development of India's electronic payment infrastructure.
Simple definition
RuPay is an Indian card-payment network through which participating banks and financial institutions can issue debit, credit and certain prepaid cards for domestic and international transactions, subject to the applicable product and network arrangements.
Important:
RuPay is a card network, not a type of bank account.

2. Who Operates RuPay?

RuPay is operated by the **National Payments Corporation of India (NPCI)**, which is an important institution in India's retail-payment infrastructure.

RuPay works with:

- Banks
- Financial institutions
- Merchants
- ATMs
- POS terminals
- Payment processors
- International payment-network partners

3. Why was RuPay Introduced?

The major objectives included:

A. Development of domestic payment infrastructure

To build a strong Indian card-payment network.

B. Reduce dependence on international card networks

A domestic network gives India greater control over its card-payment infrastructure.

C. Lower-cost electronic payments

Domestic processing can help reduce certain costs associated with card transactions, depending on the transaction and commercial arrangement.

D. Financial inclusion

RuPay cards have been widely used as part of initiatives aimed at bringing more people into formal banking.

E. Promote digital payments

RuPay supports the broader movement from cash-based transactions to electronic payments.

4. Types of RuPay Cards

RuPay is a **network**, so several types of cards can carry the RuPay brand.

A. RuPay Debit Card

A debit card linked to a customer's eligible bank account.

Uses

- ATM withdrawals
- POS payments
- Online payments
- Contactless payments where enabled
- Other permitted transactions

B. RuPay Credit Card

A credit card operating on the RuPay network.

It provides a credit facility subject to the issuer's approval and terms.

Uses

- POS purchases
- Online payments
- Contactless transactions
- Eligible UPI-linked credit-card payments, where supported

C. RuPay Prepaid Card
Certain prepaid products can operate on the RuPay network.
The card is loaded with value and used for eligible transactions subject to applicable rules.

5. RuPay Debit Card and PMJDY
RuPay has played an important role in **Pradhan Mantri Jan-Dhan Yojana (PMJDY)**.
Eligible PMJDY account holders can be provided RuPay debit cards under the applicable scheme/banking arrangements.
This connects:
PMJDY Bank Account → RuPay Debit Card → Digital/ATM Payments
Thus, RuPay supports the financial-inclusion ecosystem.

6. RuPay and Financial Inclusion
RuPay cards are important in financial inclusion because they can provide newly banked customers with a means to:

- Withdraw cash.
- Make merchant payments.
- Make online purchases.
- Access digital payment infrastructure.
- Use ATMs.
- Participate in electronic payments.

Financial inclusion chain
Bank Account
↓
RuPay Card
↓
ATM/POS/Online Payments
↓
Digital Financial Participation

7. RuPay and ATM Transactions
RuPay cards can be used at participating ATMs for eligible services.
A typical ATM transaction is:
Insert/tap card
↓
Enter PIN/authentication
↓
Select service
↓
Bank/payment network authorizes
↓
Cash dispensed / service completed
The exact availability depends on the card, ATM and applicable network arrangements.

8. RuPay and POS Transactions
RuPay cards can be used at participating POS terminals.
Example
Customer purchases goods worth ₹2,000
Customer:

1. Presents/taps/inserts RuPay card.
2. Merchant enters/receives transaction amount.
3. Customer authenticates where required.
4. Transaction is processed through the relevant payment infrastructure.
5. Transaction is approved or declined.
6. Merchant receives confirmation.

9. RuPay Contactless Cards
RuPay also supports **contactless cards**.
Contactless cards use **NFC (Near Field Communication)** technology.
How it works
Tap card → Terminal reads card → Authentication as required → Transaction processed
Benefits

- Faster payments
- Convenience
- Reduced physical contact
- Suitable for quick retail transactions

10. RuPay and Online Payments
RuPay cards can be used for eligible online transactions.
Customers may use the card for:

- E-commerce
- Online services
- Bill payments
- Other permitted transactions

Online transactions may require additional authentication/security measures.

11. RuPay and UPI
One of the important developments in India's payments ecosystem is the integration of **RuPay credit cards with UPI**, subject to applicable eligibility and participating-bank/app arrangements.
This allows eligible RuPay credit cards to be used for certain **UPI merchant payments**.
Simplified concept
RuPay Credit Card
↓
UPI-enabled participating app
↓
Eligible Merchant QR
↓
Payment
Important distinction

A **RuPay credit card is not the same thing as a UPI account**.
Rather, eligible RuPay credit cards can be linked/used through UPI for supported merchant transactions.

12. RuPay and International Acceptance
Although RuPay is India's domestic card network, certain RuPay cards can also be used internationally through applicable **international acceptance partnerships and network arrangements**.
International usage depends on:

- Card variant
- Issuing bank
- Card being enabled for international use
- Merchant/ATM acceptance
- Foreign-exchange regulations
- Card terms

Therefore:
RuPay = Indian domestic network, but selected RuPay cards can have international acceptance.

13. RuPay Network vs Bank
This is an important examination point.
Suppose a customer has:
ABC Bank RuPay Debit Card
Here:

- **ABC Bank** = Card issuer/bank
- **RuPay** = Card-payment network
- **Debit card** = Card type
- **Customer's account** = Source of funds

Similarly:
ABC Bank RuPay Credit Card

- ABC Bank = Issuer
- RuPay = Network
- Credit card = Product type
- Credit limit = Source of spending power

14. RuPay vs Visa vs Mastercard
All three can function as **card-payment networks**, but their ownership/structure and market positioning differ.

Feature	**RuPay**	**Visa**	**Mastercard**
Origin	India	United States	United States
Nature	Domestic-origin payment network	International payment network	International payment network
Indian operator/organisation	NPCI	Visa	Mastercard
Indian card issuance	Yes	Yes	Yes
Debit cards	Yes	Yes	Yes
Credit cards	Yes	Yes	Yes

Feature	RuPay	Visa	Mastercard
Prepaid cards	Certain products	Certain products	Certain products
International acceptance	Selected cards/arrangements	Broad international acceptance	Broad international acceptance
Financial inclusion role in India	Significant	Significant	Significant

Important
It is incorrect to say:
"RuPay is a debit card."
The correct statement is:
"RuPay is a card-payment network on which debit, credit and certain prepaid cards can operate."

15. RuPay and NPCI
NPCI
National Payments Corporation of India
NPCI operates several important retail-payment systems/infrastructure initiatives.
RuPay is one part of this broader ecosystem.
Other well-known NPCI systems/products include:

- UPI
- IMPS
- NACH
- AePS
- Bharat BillPay ecosystem
- FASTag-related payment infrastructure

Therefore:
RuPay is part of India's broader retail-payment infrastructure operated by NPCI.

16. Advantages of RuPay
A. Domestic payment network
Provides India with domestic card-payment infrastructure.
B. Supports financial inclusion
RuPay cards have been used extensively in financial-inclusion initiatives.
C. Wider digital-payment participation
Allows customers to use cards for:

- ATM
- POS
- Online transactions
- Contactless payments

where supported.
D. Supports innovation
Integration with other payment technologies, including eligible UPI use cases, expands payment options.
E. Domestic processing ecosystem
Supports the development of India's domestic electronic-payment capabilities.

17. Limitations / Considerations

RuPay cards may have different:

- Acceptance coverage
- Card variants
- Transaction limits
- Fees
- Rewards
- International acceptance

depending on the **issuing bank and card product**.

Therefore, two RuPay cards issued by different banks may not offer identical features.

18. Security of RuPay Cards

RuPay cards use security features appropriate to their card type and transaction channel.

These may include:

- EMV chip
- PIN
- Contactless security controls
- Online transaction authentication
- Transaction alerts
- Card controls
- Domestic/international usage controls

Customer precautions

Customers should:

- Keep their PIN confidential.
- Never disclose OTPs.
- Never share card CVV/PIN unnecessarily.
- Cover the keypad while entering PIN.
- Verify transaction amounts.
- Monitor SMS/app alerts.
- Block/report a lost card promptly.
- Report unauthorized transactions immediately.

19. RuPay Card Fraud Risks

Common card-related fraud risks include:

Card skimming

Fraudsters attempt to capture card information.

Phishing

Fraudulent websites/messages attempt to obtain card credentials.

Vishing

Fraudulent calls attempt to obtain confidential information.

Fake customer-care scams

Fraudsters impersonate bank/payment representatives.

Lost/stolen cards

Physical possession can create risks if appropriate controls are not used.

Social engineering

Fraudsters manipulate customers into voluntarily revealing confidential information.

20. RuPay and BC/BF Model

RuPay cards are particularly relevant to the **Business Correspondent (BC) model** because BCs may facilitate banking transactions using authorized devices.

A customer with a RuPay debit card may be able to perform eligible transactions through:

- Micro-ATM
- POS/device
- ATM
- Other authorized channels

Example

Customer → RuPay Debit Card → BC/Micro-ATM → Bank

This helps extend banking services to remote areas.

21. RuPay and Micro-ATMs

A RuPay debit card may be used at an authorized Micro-ATM for eligible services.

A typical process can be:

Customer presents card

↓

BC operates Micro-ATM

↓

Customer enters PIN where applicable

↓

Transaction request transmitted

↓

Bank/network authorizes

↓

Cash/service provided

↓

Receipt/confirmation

22. RuPay and Financial Inclusion Schemes

RuPay has a significant association with government-supported financial inclusion initiatives, particularly **PMJDY**.

The broader model is:

PMJDY Account

↓

RuPay Debit Card

↓

ATM / POS / Digital Channels

↓

Access to Payments

↓

Financial Inclusion

23. RuPay Card Lifecycle

A simplified lifecycle is:

Application
↓
Bank's approval
↓
Card issuance
↓
Card activation
↓
PIN/authentication setup
↓
Usage at ATM/POS/online
↓
Transaction monitoring
↓
Renewal/replacement

24. RuPay Debit vs RuPay Credit

Feature	**RuPay Debit Card**	**RuPay Credit Card**
Issued by	Bank/eligible issuer	Bank/eligible issuer
Network	RuPay	RuPay
Source of funds	Linked bank account	Approved credit limit
Borrowing	Normally no	Yes
ATM usage	Generally available subject to terms	May be available subject to terms
POS	Yes	Yes
Online	Yes	Yes
UPI	Depends on applicable debit-card/UPI functionality	Eligible RuPay credit cards can support certain UPI merchant payments
Repayment	No separate credit repayment	Required

25. RuPay — Exam-Oriented Points

Full form / meaning
RuPay = Rupee + Payment
Operated by
NPCI
Nature
Domestic card-payment network
Card types

- Debit
- Credit
- Certain prepaid cards

Uses

- ATM
- POS
- Online payments
- Contactless payments
- Certain UPI-linked credit-card payments

Financial inclusion

Important through **PMJDY and other banking initiatives**.

26. Common Examination Questions

Q1. What is RuPay?

RuPay is India's domestic card-payment network operated by NPCI, through which participating issuers can provide debit, credit and certain prepaid card products.

Q2. Is RuPay a bank?

No. RuPay is a card-payment network operated by NPCI.

Q3. Is RuPay a debit card?

No. RuPay is the **network**; a RuPay debit card is a debit-card product issued on that network.

Q4. Who operates RuPay?

National Payments Corporation of India (NPCI).

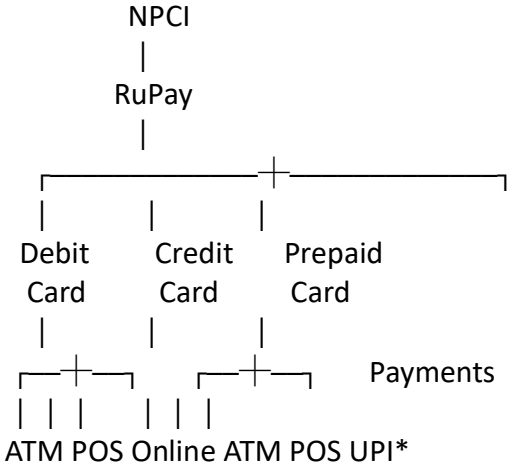
Q5. Can RuPay cards be used internationally?

Selected RuPay cards can be used internationally, depending on the card variant, issuer, international acceptance arrangements and applicable regulations.

Q6. Can RuPay credit cards be used with UPI?

Eligible RuPay credit cards can be linked/used for supported UPI merchant transactions, subject to participating bank/app arrangements and applicable rules.

27. RuPay in the Digital Banking Ecosystem



* **UPI use of RuPay credit cards** is available for supported use cases, particularly eligible merchant payments.

28. Quick Revision Table

Term	Meaning
RuPay	Indian domestic card-payment network
NPCI	Organization operating RuPay
RuPay Debit Card	Card linked to customer's eligible bank account
RuPay Credit Card	Card providing an approved credit facility
RuPay Prepaid Card	Certain prepaid card products operating on RuPay
RuPay Contactless	Tap-based RuPay card using contactless technology
PMJDY + RuPay	Important financial-inclusion combination
RuPay + UPI	Eligible RuPay credit cards can support certain UPI merchant payments

Golden Formula
RuPay = Indian Card Network
NPCI = Operator
Debit = Own Bank Funds
Credit = Borrowed/Approved Credit
Prepaid = Preloaded Value
PMJDY = Financial Inclusion
UPI + RuPay Credit = Eligible Merchant Payments
In short: RuPay provides the card-payment network; banks issue the cards; ATMs/POS/online channels provide acceptance; and initiatives such as PMJDY help extend card-based banking to a wider population.
UPI, BHIM and Bharat QR — Complete Notes
UPI, BHIM and Bharat QR are important components of India's digital-payment ecosystem. They are closely related, but they are **not the same thing**:

- **UPI** = payment infrastructure/interface
- **BHIM** = mobile payment application built around UPI
- **Bharat QR** = QR-code based merchant payment acceptance solution

A useful memory aid is:
UPI = Infrastructure
BHIM = App
Bharat QR = QR Payment Acceptance

PART I — UPI

1. What is UPI?

UPI (Unified Payments Interface) is an instant payment system developed by **NPCI** that enables customers to make and receive payments between participating bank accounts through a mobile application or other supported channels.

Simple definition

UPI is a real-time, interoperable payment system that enables customers to transfer money between participating bank accounts using a mobile device and convenient payment identifiers such as a UPI ID, mobile number or QR code, subject to applicable rules.

2. Who Operates UPI?

UPI is operated by the **National Payments Corporation of India (NPCI)**.

Banks and authorized payment applications participate in the UPI ecosystem.

Basic structure

Customer's Bank

↕

UPI / NPCI infrastructure

↕

Recipient's Bank

The customer interacts through a participating **UPI application/bank app**.

3. Main Features of UPI

A. Instant payments

Payments are generally processed in real time.

B. 24×7 availability

UPI is designed for round-the-clock payment availability, subject to system/bank availability.

C. Interoperability

A customer can generally use a participating UPI application to pay a recipient using another participating bank/application.

D. Bank-account based

UPI facilitates transactions through participating bank accounts.

E. Mobile-based

UPI is especially convenient through smartphones and supported mobile applications.

4. UPI ID / Virtual Payment Address

A **UPI ID** is a payment identifier that can be used to send or receive money without necessarily sharing the recipient's bank-account number and IFSC with the payer.

For example, a UPI ID may have a format similar to:

name@bank

The exact format varies by participating bank/app.

5. Ways to Make UPI Payments

A customer can initiate UPI payments using:

- UPI ID
- QR code
- Mobile number, where supported
- Bank-account details through supported UPI functionality
- Other supported identifiers/features

6. UPI QR Payment

A customer can pay a merchant by scanning a UPI QR code.

Process

Open UPI app
↓
Scan QR code
↓
Verify merchant/recipient details
↓
Enter amount
↓
Authenticate
↓
Payment processed
↓
Confirmation

7. Person-to-Person (P2P) Payments

UPI allows one individual to send money to another individual.

Example

A → ₹2,000 → B

The payer can use an eligible UPI ID, mobile number or other supported mechanism.

8. Person-to-Merchant (P2M) Payments

UPI can be used to pay:

- Shops
- Restaurants
- Supermarkets
- Online merchants
- Service providers
- Small businesses

This is one of the most important uses of UPI.

9. UPI Collect / Payment Requests

Depending on the applicable UPI functionality, a recipient/merchant can send a **payment request** to the customer.

The customer reviews the request and authorizes it if they agree.

Important security point
Receiving a UPI payment request does not mean that the customer must approve it.
Customers should verify the transaction before authorizing.

10. UPI PIN
A **UPI PIN** is a confidential authentication credential used to authorize certain UPI transactions.
Important rule
Never share your UPI PIN with anyone.
A customer generally does **not** need to enter a UPI PIN merely to receive money.

11. UPI and Financial Inclusion
UPI has contributed to financial inclusion by enabling:

- Low-cost digital payments
- Small-value transactions
- Merchant payments
- Person-to-person transfers
- Digital commerce
- Reduced dependence on cash

It is particularly useful for small merchants because QR-based acceptance can be relatively inexpensive.

12. Advantages of UPI
For customers

- Fast
- Convenient
- Interoperable
- Mobile-based
- Reduces need to carry cash
- Easy merchant payments
- Easy P2P transfers

For merchants

- Easy digital acceptance
- QR-based payments
- Faster settlement/transaction confirmation
- Reduced cash handling
- Digital transaction records

For banks/payment ecosystem

- Efficient electronic payments
- Wider digital-payment reach
- Increased transaction volumes
- Supports financial inclusion

13. UPI Risks

Common risks include:

- Fake UPI payment screenshots
- Fraudulent collect requests
- Phishing
- Fake QR codes
- Social engineering
- Remote-access scams
- Fake customer-care numbers
- Unauthorized transactions

Safety rule

To receive money, you generally do not need to enter your UPI PIN.

PART II — BHIM

14. What is BHIM?

BHIM = Bharat Interface for Money.

BHIM is a **mobile payment application developed by NPCI** that enables users to make and receive payments using UPI.

Simple definition

BHIM is an NPCI-developed mobile application that enables users to make and receive bank-account-based payments through UPI.

15. Purpose of BHIM

BHIM was introduced to make digital payments:

- Simple
- Accessible
- User-friendly
- Mobile-based
- Widely understood

It provides a convenient interface for using UPI.

16. Main Features of BHIM

BHIM can support features such as:

- Send money
- Receive money
- UPI ID-based payments
- QR-code payments
- Bank-account-related payment functionality
- Transaction history
- UPI PIN-related functions
- Other supported UPI features

The exact features may evolve over time.

17. How BHIM Works
Example
BHIM App
↓
UPI infrastructure
↓
Payer's bank
↓
Recipient's bank
↓
Recipient's account
BHIM is therefore an **application/interface**, while UPI is the underlying payment infrastructure.

18. BHIM vs UPI
This is a very important examination distinction.

BHIM	UPI
Mobile application	Payment infrastructure/system
Developed by NPCI	Operated by NPCI
Used to access UPI payments	Enables interoperable bank-account payments
One specific app	Ecosystem used by many participating apps/banks
Interface	Infrastructure/payment system

Easy memory
UPI is the highway; BHIM is one vehicle that can travel on it.
This is only an analogy, but it is useful for remembering the distinction.

19. BHIM vs Other UPI Apps
BHIM is **one UPI-enabled application**.
Other participating banks/payment applications can also provide UPI services.
Therefore:
UPI is not limited to BHIM.
A customer can use an eligible UPI app from a participating bank/provider without using BHIM.

PART III — BHARAT QR
20. What is Bharat QR?
Bharat QR is a QR-code based payment acceptance solution developed for interoperable digital payments in India.
It allows merchants to display a QR code that customers can scan using compatible payment applications.
Simple definition
Bharat QR is an interoperable QR-code based merchant-payment acceptance solution that enables customers to make digital payments by scanning a merchant QR code through supported payment applications.

21. Purpose of Bharat QR

Bharat QR was designed to:

- Promote cashless/less-cash payments.
- Make merchant acceptance easier.
- Reduce the need for expensive card-swipe infrastructure in some use cases.
- Support interoperable digital payments.
- Help small merchants accept electronic payments.

22. How Bharat QR Works

Customer payment
Merchant displays Bharat QR
↓
Customer opens compatible payment app
↓
Scans QR
↓
Merchant/payment details appear
↓
Customer enters amount if required
↓
Customer authenticates
↓
Payment processed
↓
Confirmation

23. Bharat QR and Multiple Payment Networks

Bharat QR was designed as an **interoperable QR acceptance framework**, supporting multiple payment networks/payment methods according to the applicable ecosystem and implementation.
This is different from a QR code that is restricted to a single payment provider.

24. Bharat QR vs UPI QR

These concepts can overlap, but they should not be treated as identical.

UPI QR

A QR code designed to facilitate **UPI payments**.

Bharat QR

An interoperable QR acceptance solution designed to support multiple payment schemes/networks according to the applicable specifications.
Therefore:
UPI is a payment system; Bharat QR is a QR-based acceptance solution.

25. Bharat QR and Merchants

Bharat QR is particularly useful for:

- Small shops
- Retail stores

- Restaurants
- Service providers
- Other merchants

Benefits

- Less cash handling
- Convenient customer payments
- Electronic transaction records
- Potentially lower acceptance infrastructure requirements
- Wider digital-payment acceptance

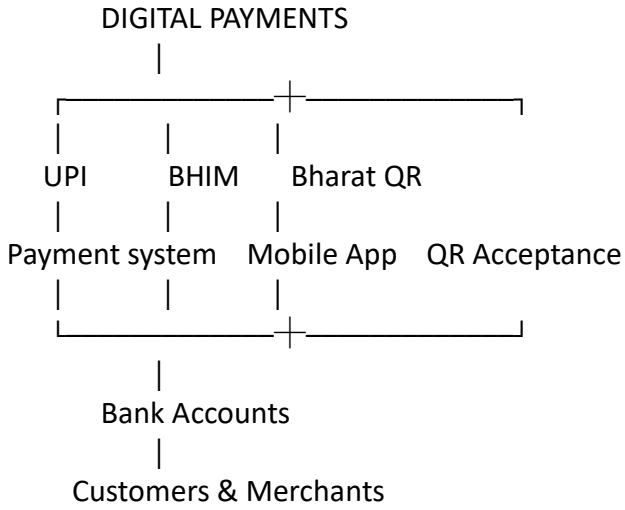
26. UPI vs BHIM vs Bharat QR

This is the **most important comparison**.

Feature	**UPI**	**BHIM**	**Bharat QR**
Full form	Unified Payments Interface	Bharat Interface for Money	Bharat QR
Nature	Payment system/interface	Mobile application	QR payment acceptance solution
Developed/operated in NPCI ecosystem	Yes	Yes	Yes
Main purpose	Bank-account payments	Access UPI payments	Merchant QR acceptance
Main user	Customers, merchants, banks/apps	Customers	Merchants + customers
Mobile app required?	Usually through a participating app/channel	Yes	Customer uses a compatible payment app
QR payments	Supports QR payments	Supports UPI QR payments	QR is its core mechanism
P2P	Yes	Yes	Primarily merchant acceptance
P2M	Yes	Yes	Yes
Financial inclusion	High	High	High

27. Relationship Between UPI, BHIM and Bharat QR

Think of the ecosystem like this:



A more practical example:

Merchant displays QR

↓

Customer opens BHIM or another compatible UPI/payment app

↓

QR is scanned

↓

UPI/payment infrastructure processes transaction

↓

Customer's bank → Merchant's bank

↓

Payment confirmation

28. Role in Financial Inclusion

These technologies make it easier for small customers and merchants to participate in the formal digital economy.

Customer side

- Bank account
- Mobile phone
- UPI
- BHIM/other participating app

Merchant side

- Bank account
- QR code
- Payment acceptance

Result

Low-cost digital payment ecosystem

29. Advantages

UPI

- Fast
- Interoperable
- Convenient
- 24×7 design
- P2P and merchant payments
- Supports digital commerce

BHIM

- Simple UPI interface
- NPCI-developed app
- Enables bank-account-based digital payments
- QR/payment functionality

Bharat QR

- Easy merchant acceptance
- QR-based
- Interoperable approach
- Reduces dependence on traditional card-acceptance hardware in relevant use cases

30. Security Precautions

For UPI/BHIM users

- Never share UPI PIN.
- Verify recipient/merchant name before paying.
- Do not approve unknown collect/payment requests.
- Do not trust screenshots as proof of payment.
- Check the actual bank/payment confirmation.
- Never install remote-access applications at the request of strangers.
- Be careful with fake customer-care numbers.

For QR payments

Scanning a QR code is generally a way to make a payment, not to receive money.

Therefore:

If someone tells you to **scan a QR code and enter your UPI PIN to receive money**, treat this as a potential fraud warning.

31. Common Fraud Examples

Example 1 — Fake payment screenshot

A customer receives a screenshot claiming that payment has been made.

Correct action: Check the actual transaction/account confirmation rather than relying on the screenshot.

Example 2 — Fake collect request

A fraudster sends a UPI payment request.

Correct action: Do not approve it unless you genuinely intend to make that payment.

Example 3 — QR-code scam

Someone says:

"Scan this QR and enter your PIN to receive ₹5,000."

This is suspicious because entering the UPI PIN generally **authorises a payment**, not receipt of money.

32. Exam-Oriented Short Notes

UPI

UPI (Unified Payments Interface) is an NPCI-operated instant payment system that enables interoperable bank-account-based payments through participating apps and channels using identifiers such as UPI IDs and QR codes.

BHIM

BHIM (Bharat Interface for Money) is an NPCI-developed mobile application that enables users to make and receive payments using UPI.

Bharat QR

Bharat QR is an interoperable QR-code based merchant payment acceptance solution that enables customers to make digital payments by scanning a merchant QR code through compatible payment applications.

33. Most Important Differences

UPI

What is it?

→ Payment system/infrastructure

BHIM

What is it?

→ Mobile application

Bharat QR

What is it?

→ QR-based merchant acceptance solution

Remember:

UPI = SYSTEM

BHIM = APP

Bharat QR = QR ACCEPTANCE

34. Quick Revision Table

Item	Full form	One-line meaning
UPI	Unified Payments Interface	Interoperable bank-account payment system
BHIM	Bharat Interface for Money	NPCI-developed UPI mobile app
Bharat QR	Bharat QR	Interoperable QR-based payment acceptance solution
NPCI	National Payments Corporation of India	Major retail-payment infrastructure organisation
UPI ID	—	Convenient identifier for UPI payments
UPI PIN	—	Confidential authentication credential for UPI transactions
QR	Quick Response	Machine-readable code used for payment initiation

Final memory formula
BANK ACCOUNT
↓
UPI — payment infrastructure
↓
BHIM/other participating apps — customer interface
↓
Bharat QR/UPI QR — merchant acceptance
↓
DIGITAL PAYMENT
↓
FINANCIAL INCLUSION

Module D: SOFT SKILLS AND BEHAVIOURAL ASPECTS
Chapter 18: Communication and Financial Counselling (Including Financial Literacy and Financial Education)

18.1 Importance of Financial Education for Banks
18.2 Role of RBI in Financial Literacy

Financial Counselling, Financial Literacy and Financial Education — Role of BC/BF

These three concepts are closely related, but they are **not identical**. For a **Business Correspondent (BC)/Business Facilitator (BF)**, understanding the distinction is important because their role is not merely to perform transactions; they can also help customers understand and use financial services responsibly.

1. What is Financial Counselling?

Financial counselling is the process of helping an individual or customer understand their financial situation, identify appropriate financial choices, manage money effectively and avoid harmful financial decisions.

Simple definition

Financial counselling is personalized guidance provided to a customer to help them make suitable financial decisions according to their needs, income, financial goals and circumstances.

Examples

A BC/BF may help a customer understand:

- How much they should save regularly.
- Which type of bank account may suit their needs.
- How to manage loan repayments.
- The consequences of excessive borrowing.
- The importance of maintaining adequate savings.
- How insurance can protect a family from financial shocks.
- How pension products can provide retirement security.
- How to avoid fraudulent financial schemes.

Important distinction

Financial counselling is generally **more individualized** than financial literacy or financial education.

2. What is Financial Literacy?

Financial literacy means having the **knowledge, skills, attitudes and awareness necessary to understand financial products and make informed financial decisions**.

Simple definition

Financial literacy is the ability to understand basic financial concepts and use that knowledge to make informed and responsible financial decisions.

A financially literate person should understand concepts such as:

- Saving
- Interest
- Borrowing
- Loan repayment
- Insurance
- Pension
- Digital payments

- Banking charges
- Risk
- Fraud prevention
- Financial planning

3. What is Financial Education?

Financial education is the **process of providing financial knowledge and skills** so that people develop financial literacy and can make appropriate financial decisions.

Simple definition

Financial education is the systematic process of teaching people financial concepts, skills and responsible financial behaviour.

Examples

A BC/BF may conduct a small awareness session explaining:

- How a savings account works.
- What interest means.
- How to use a debit card.
- How UPI works.
- How to protect an OTP/PIN.
- What an NPA/default means.
- Why insurance is important.
- How pension schemes work.

4. Financial Literacy vs Financial Education vs Financial Counselling

This distinction is very important.

Aspect	**Financial Literacy**	**Financial Education**	**Financial Counselling**
Meaning	Ability to understand and use financial knowledge	Process of teaching financial knowledge	Individualized financial guidance
Focus	**Knowledge + ability**	**Learning**	**Personal decision-making**
Nature	Outcome/capability	Educational process	Guidance/advice
Audience	Individuals/community	Individuals/groups	Individual customer/family
Example	Customer understands interest	BC teaches interest	BC helps customer compare repayment options
Main objective	Informed financial behaviour	Build financial knowledge	Suitable financial decision

Easy memory

Financial Education = TEACH

Financial Literacy = UNDERSTAND

Financial Counselling = GUIDE

5. Why Financial Counselling is Needed

Customers may face:

- Excessive borrowing.
- Over-indebtedness.
- Poor saving habits.
- Lack of insurance.
- Lack of retirement planning.
- Digital-payment fraud.
- Misunderstanding of bank charges.
- Difficulty comparing financial products.
- Dependence on informal moneylenders.

Financial counselling helps customers make **informed and responsible choices**.

6. Role of BC/BF in Financial Counselling

A BC/BF is often the **first point of contact** between a bank and customers in underserved areas. Therefore, they can provide basic financial guidance.

A. Understand the customer's needs

The BC/BF should first understand:

- Purpose of the customer's financial activity.
- Income pattern.
- Saving needs.
- Credit requirement.
- Payment needs.
- Insurance/pension requirements.

The BC/BF should **not assume that the same product is suitable for every customer**.

B. Explain suitable banking products

BC/BF can explain basic features of:

Deposit products

- Savings account
- Basic savings account
- Fixed deposit
- Recurring deposit

Credit products

- Agricultural loans
- MSME loans
- Kisan Credit Card
- Other eligible loans

Insurance

- PMJJBY
- PMSBY
- Other permitted insurance products

Pension

- APY
- NPS

The customer should be given **clear and accurate information**, including relevant charges, risks and conditions.

7. Counselling on Savings

The BC/BF can encourage customers to:

- Save regularly.
- Maintain an emergency reserve.
- Use formal banking channels.
- Avoid keeping unnecessarily large amounts of cash at home.
- Understand the difference between savings and investment.
- Develop a regular saving habit.

Example

A customer earns irregular income.

The BC/BF can explain the importance of putting aside a manageable amount regularly rather than spending all income immediately.

8. Counselling on Credit

This is one of the most important responsibilities.

Before taking a loan, customers should understand:

- Purpose of the loan.
- Principal amount.
- Interest rate.
- Processing charges.
- Repayment period.
- EMI/installment.
- Total repayment obligation.
- Consequences of delayed repayment.
- Security/collateral requirements where applicable.

BC/BF should discourage:

❌ Taking unnecessary loans.

❌ Borrowing from multiple sources without understanding repayment capacity.

❌ Using one loan simply to repay another without a sustainable repayment plan.

9. Preventing Over-Indebtedness

BC/BF can educate customers to:

Assess income → Assess existing debt → Assess repayment capacity → Borrow responsibly

A customer should understand that **loan eligibility does not necessarily mean that the maximum available loan is financially suitable**.

10. Financial Literacy Through BC/BF

BC/BF can conduct basic financial-literacy activities at:

- Villages
- BC outlets
- Community centers
- Self-help-group meetings

- Farmer groups
- Small-business gatherings
- Other permitted community settings

Topics can include:

- Saving
- Banking
- Loans
- Interest
- Insurance
- Pension
- Digital payments
- Fraud prevention
- Grievance redressal

11. Financial Education by BC/BF

Financial education should be **simple, practical and understandable**.

For example, a BC can explain:

Topic: Interest

"If you deposit money in a bank, the bank may pay interest according to the account/deposit terms. If you borrow money, you generally have to pay interest according to the loan agreement."

Topic: Digital fraud

"Never tell anyone your OTP, PIN, password or UPI PIN."

Topic: Insurance

"Insurance protects against specified financial risks; it is different from a savings account or investment."

This kind of simple explanation improves financial awareness.

12. Digital Financial Literacy

Today, financial literacy must include **digital financial literacy**.

BC/BF should educate customers about:

UPI

- How to make payments.
- How to verify the recipient.
- How to identify payment requests.

ATM

- Safe PIN entry.
- Recognizing suspicious devices.
- Reporting retained cards.

Mobile banking

- Using official applications.
- Protecting passwords.

Cards

- PIN confidentiality.
- Card blocking.
- Safe online transactions.

QR payments

- Verify merchant details.
- Understand that scanning a QR code generally initiates a payment; it does not automatically mean receiving money.

13. Fraud Awareness

A BC/BF should teach customers to recognize:

- Phishing
- Smishing
- Vishing
- Fake customer-care calls
- Fake loan offers
- Fake investment schemes
- Fake UPI requests
- Fake payment screenshots
- Identity theft

Golden rule

Never share OTP, PIN, password, CVV or UPI PIN with another person.

14. Financial Education on Insurance

BC/BF can explain the basic purpose of insurance.

Insurance = Risk protection

For example:

PMJJBY → Life insurance

PMSBY → Accident insurance

Customers should understand:

- Premium.
- Coverage.
- Policy period.
- Eligibility.
- Exclusions/conditions.
- Nominee.
- Claim process.

The BC/BF should not misrepresent the product or promise benefits that are not part of the scheme.

15. Financial Education on Pension

BC/BF can explain:

APY

- Long-term pension savings.
- Entry-age requirements.
- Contribution requirements.
- Selected pension amount.
- Pension after the prescribed age, subject to scheme rules.

NPS

- Long-term retirement savings.
- Contributions are invested.

- Retirement outcome depends on contributions/investment performance and applicable withdrawal/annuity rules.

The customer should understand the product before enrolling.

16. Financial Education on Government Schemes

BC/BF can create awareness about schemes such as:

- PMJDY
- PMJJBY
- PMSBY
- APY
- NPS
- DBT-related banking services

The BC/BF should explain **eligibility, benefits, contribution/premium, important conditions and application procedure** accurately.

17. Helping Customers Compare Products

A BC/BF can help customers understand differences between products.

Example: Savings vs Fixed Deposit

Savings Account	Fixed Deposit
Regular transactions	Money placed for specified tenure
High liquidity	Generally, less liquid
Interest according to account terms	Interest according to deposit terms
Suitable for routine banking	Suitable for planned savings

The customer can then make an informed decision.

18. Customer Protection in Counselling

BC/BF must follow the principle:

"Customer interest first."

They should:

- Provide accurate information.
- Explain important terms.
- Disclose applicable charges.
- Avoid misleading statements.
- Avoid coercion.
- Respect customer choice.
- Maintain confidentiality.
- Provide information about complaint mechanisms.
- Avoid unauthorized fees.
- Avoid mis-selling.

19. What BC/BF Should NOT Do

A BC/BF should not:

❌ Guarantee loan approval.
❌ Promise investment returns that are not guaranteed.
❌ Misrepresent insurance benefits.
❌ Hide charges or conditions.
❌ Force customers to purchase products.
❌ Ask for confidential PIN/OTP/password information.
❌ Give unauthorized financial advice beyond their role/authority.
❌ Encourage irresponsible borrowing.
❌ Manipulate customer transactions.

20. Financial Counselling Process for BC/BF

A simple process is:

Step 1 — Listen
Understand the customer's requirement.
↓
Step 2 — Assess
Understand basic financial circumstances and existing obligations, within the BC/BF's role.
↓
Step 3 — Explain
Explain relevant products and alternatives.
↓
Step 4 — Educate
Explain:

- Benefits
- Costs
- Risks
- Conditions
- Repayment/premium obligations

↓
Step 5 — Customer decides
The customer makes the final informed decision.
↓
Step 6 — Facilitate
BC/BF assists with the authorized application/transaction process.
↓
Step 7 — Follow up
Explain how to:

- Check account/transaction status.
- Make repayments/contributions.
- Obtain assistance.
- Lodge complaints.

21. Example of BC/BF Financial Counselling

Situation

A farmer approaches a BC asking for a ₹2 lakh loan.

Poor approach

"You can take ₹2 lakh. Sign here."

Proper approach

The BC/BF should help the customer understand:

- Purpose of the loan.
- Whether the customer is eligible.
- Existing borrowing.
- Repayment obligation.
- Interest and charges.
- Tenure.
- Consequences of default.
- Relevant documents.
- Application process.

Then the customer can make an informed decision and the bank can assess the loan according to its procedures.

22. Financial Literacy Camp by BC/BF

A BC/BF can organize a simple financial-literacy session:

Topic 1 — Saving

"Why should you save regularly?"

Topic 2 — Banking

"How to use a savings account?"

Topic 3 — Digital payments

"How to use UPI safely?"

Topic 4 — Credit

"What is interest? How should you repay a loan?"

Topic 5 — Insurance

"Why is life/accident protection important?"

Topic 6 — Pension

"Why should you plan for old age?"

Topic 7 — Fraud

"Never share OTP/PIN/UPI PIN."

Topic 8 — Complaints

"How can you complain if a banking transaction goes wrong?"

23. Importance of Financial Counselling for Financial Inclusion

Financial inclusion does not simply mean **opening a bank account**.

True financial inclusion means that customers can:

Access → Understand → Use → Benefit from → Safely manage financial services

Therefore:

Access without understanding is incomplete financial inclusion.

BC/BF helps bridge this gap.

24. Relationship Between the Three

FINANCIAL EDUCATION
↓
Teaching financial concepts
↓
FINANCIAL LITERACY
↓
Customer understands financial matters
↓
FINANCIAL COUNSELLING
↓
Customer receives appropriate guidance
↓
INFORMED FINANCIAL DECISION
↓
RESPONSIBLE FINANCIAL BEHAVIOUR

25. Duties of BC/BF — Summary Table

Area	Duty of BC/BF
Financial Counselling	Understand customer needs and provide basic, suitable guidance within authorized role
Financial Literacy	Improve customer's ability to understand financial products/services
Financial Education	Teach basic concepts such as saving, credit, insurance, pension and digital payments
Digital Literacy	Teach safe use of UPI, cards, mobile banking and ATMs
Credit counselling	Explain repayment obligations and encourage responsible borrowing
Insurance education	Explain basic coverage, premium, eligibility and important conditions
Pension education	Explain APY/NPS features and contribution obligations
Fraud awareness	Educate customers about phishing, OTP/PIN scams and digital fraud
Customer protection	Disclose charges/conditions and avoid mis-selling
Grievance awareness	Tell customers how to raise complaints and obtain assistance
Confidentiality	Protect customer information and credentials

26. Exam-Ready Definitions

Financial Counselling

Financial counselling is personalized guidance provided to customers to help them understand their financial needs and make informed, responsible and suitable financial decisions.

Financial Literacy

Financial literacy is the knowledge, skills, attitudes and awareness that enable a person to understand financial matters and make informed financial decisions.

Financial Education

Financial education is the process of teaching individuals financial concepts, knowledge and skills so that they can develop financial literacy and practice responsible financial behaviour.

27. Most Important Difference for Exams
Financial Education
Teacher/BC teaches.
Financial Literacy
Customer understands and develops financial capability.
Financial Counselling
BC/BF provides personalized guidance for a customer's financial situation.

Golden formula:
EDUCATE → MAKE LITERATE → COUNSEL → ENABLE INFORMED DECISION → PROTECT CUSTOMER

Conclusion
The **BC/BF is not merely a transaction facilitator**. Within the scope of their authorized role, they can act as an important **last-mile financial educator, literacy facilitator and basic financial counsellor**. By explaining banking products, promoting savings, encouraging responsible borrowing, creating awareness about insurance and pension, teaching safe digital banking and informing customers about grievance mechanisms, BC/BFs help convert **financial access into meaningful financial inclusion**.

Importance of Financial Education for Banks

Financial education is the process of providing people with knowledge, skills and awareness to understand financial products, services, risks and responsibilities and make informed financial decisions.
For banks, financial education is important because **a financially educated customer is more likely to use banking services properly, responsibly and confidently**.

1. Promotes Financial Inclusion
Financial education helps people understand:

- Bank accounts
- Deposits
- Credit
- Insurance
- Pension
- Digital payments
- Remittances

This encourages people who are outside the formal financial system to **open and actively use bank accounts**.
Result:
Financial education → Financial awareness → Banking participation → Financial inclusion

2. Increases the Customer Base of Banks
When people understand banking products, they are more willing to use them.
Financial education can encourage customers to use:

- Savings accounts
- Fixed deposits
- Recurring deposits
- Loans
- Credit cards

- Digital banking
- Insurance
- Pension products

This can help banks expand their customer base.

3. Encourages Savings

Financial education teaches customers:

- Importance of saving.
- Benefits of regular saving.
- Difference between saving and spending.
- Benefits of formal financial institutions.
- Basic concepts of interest and returns.

Benefit to banks

More informed customers may maintain regular deposits, providing banks with a more stable deposit base.

4. Promotes Responsible Borrowing

Customers need to understand:

- Interest rates
- Loan tenure
- EMI/installments
- Processing charges
- Collateral requirements
- Repayment obligations
- Consequences of default

Financial education helps prevent **unnecessary and excessive borrowing**.

Benefit to banks

Responsible borrowers are more likely to:

- Understand their repayment obligations.
- Repay loans on time.
- Avoid excessive debt.

This can contribute to better **credit quality**.

5. Reduces Loan Defaults

A customer who understands the consequences of non-payment is more likely to take repayment obligations seriously.

Financial education can explain:

Loan → Interest → Instalment → Repayment → Credit history

This can help reduce avoidable defaults and improve responsible credit behaviour.

6. Improves Customer Understanding of Bank Products

Banks offer many products, and customers may not understand their differences.

Financial education can explain:

- Savings account vs current account
- Savings account vs fixed deposit
- Secured vs unsecured loans

- Debit card vs credit card
- Insurance vs investment
- Fixed vs floating interest rates
- Digital vs branch banking

This helps customers select products that are appropriate for their needs.

7. Reduces Mis-selling and Customer Disputes

Customers who understand products are better able to evaluate:

- Benefits
- Costs
- Risks
- Terms and conditions
- Charges

This can reduce misunderstandings and disputes.

It also encourages banks and their representatives to follow **transparent and responsible selling practices**.

8. Promotes Digital Banking

Financial education is increasingly important because banking is becoming digital.

Customers need to understand:

- Mobile banking
- Internet banking
- UPI
- QR payments
- ATM usage
- Debit/credit cards
- Digital fund transfers

Financial education helps customers become confident in using these services.

9. Reduces Digital Financial Fraud

A financially and digitally educated customer is more likely to recognise:

- Phishing
- Smishing
- Vishing
- Fake customer-care calls
- Fake loan offers
- Fake payment screenshots
- Fraudulent UPI requests
- QR-code scams
- Identity theft

Key message

Never share OTP, PIN, password, CVV or UPI PIN with anyone.

Fraud awareness protects both **customers and banks**.

10. Promotes Use of Formal Banking Channels

Financial education can discourage customers from relying excessively on:

- Informal moneylenders
- Unregulated financial schemes
- Unsafe cash-based arrangements
- Fraudulent investment schemes

Instead, customers become more aware of regulated banking and financial channels.

11. Supports Government Financial-Inclusion Schemes

Banks participate in various financial-inclusion and social-security initiatives.
Financial education helps customers understand schemes such as:

- **PMJDY**
- **PMJJBY**
- **PMSBY**
- **APY**
- **NPS**
- DBT-related banking services

This increases awareness and can improve meaningful participation.

12. Improves Customer Trust

Customers are more likely to trust banks when they understand:

- How their accounts work.
- How transactions are processed.
- What charges apply.
- How interest is calculated.
- How complaints can be made.
- How their money and information are protected.

Therefore, financial education contributes to **customer confidence and trust in the banking system**.

13. Reduces Pressure on Bank Branches

Educated customers can perform many routine activities independently.
For example:
Instead of visiting a branch to ask about:

- Account balance
- Fund transfer
- UPI
- Card management
- Statements
- Bill payments

they may use:

- Mobile banking
- Internet banking
- ATMs
- UPI
- Other self-service channels

This reduces routine workload for bank employees.

14. Supports BC/BF Operations
Financial education is particularly important under the **Business Correspondent/Business Facilitator model**.
BC/BFs can educate customers about:

- Bank accounts
- Micro-ATMs
- Biometric authentication
- AePS
- Digital payments
- Insurance
- Pension
- Credit
- Fraud prevention

Thus:
Bank → BC/BF → Financial Education → Customer → Financial Inclusion

15. Improves Customer Retention
A customer who understands and regularly uses appropriate banking services is more likely to maintain an active relationship with the bank.
Financial education can therefore contribute to:

- Customer engagement
- Product awareness
- Better service usage
- Long-term customer relationships

16. Helps Customers Plan for Emergencies
Financial education encourages customers to understand:

- Emergency savings
- Insurance
- Pension
- Responsible credit
- Financial risk

This can make customers more financially resilient.
For banks, financially resilient customers may also represent **lower financial vulnerability and better repayment capacity**.

17. Promotes Insurance and Pension Awareness
Banks often distribute or facilitate access to financial-protection and retirement products.
Financial education helps customers understand:
Insurance
Protection against specified risks
Pension
Income/security for later life

Customers can then make more informed decisions about products such as **PMJJBY, PMSBY, APY and NPS**, where eligible.

18. Improves Financial Discipline
Financial education encourages:

- Regular saving
- Timely repayment
- Responsible spending
- Budgeting
- Proper use of credit
- Monitoring of bank accounts
- Protection of financial credentials

This contributes to healthier customer-bank relationships.

19. Helps Banks Fulfil Customer-Protection Objectives
Banks have an important responsibility to ensure customers understand relevant products and services. Financial education supports:

- Transparency
- Fair treatment
- Informed choice
- Responsible banking
- Fraud awareness
- Effective grievance redressal

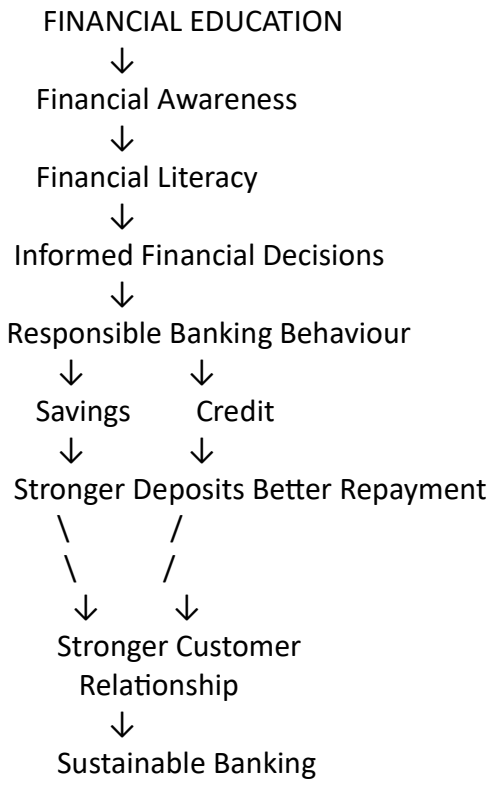
It therefore complements the bank's broader **customer-protection framework**.

20. Supports Sustainable Banking Business
Financial education creates a positive cycle:
Educated customer
↓
Better financial decisions
↓
Responsible use of banking products
↓
Regular savings & responsible borrowing
↓
Lower avoidable disputes/defaults
↓
Greater trust
↓
Stronger customer relationship
↓
Sustainable banking growth

Importance to Banks — Quick Table

Area	Importance to Bank
Financial inclusion	Expands access to banking
Deposits	Encourages savings and formal deposits
Credit	Promotes responsible borrowing
Loan recovery	Can improve repayment awareness
Digital banking	Increases digital-channel adoption
Fraud prevention	Reduces customer vulnerability
Customer service	Reduces routine branch enquiries
Product awareness	Helps customers understand suitable products
Customer protection	Promotes transparency and informed choice
Customer trust	Strengthens confidence in banks
BC/BF model	Improves last-mile banking effectiveness
Government schemes	Improves awareness of financial-inclusion schemes
Long-term growth	Supports sustainable customer relationships

Role of Financial Education in Banking — Diagram



Financial Education and BC/BF

For a BC/BF, financial education should be **simple, practical and customer-oriented**.

They should educate customers about:

1. Banking

- Opening and operating accounts
- Deposits
- Interest

2. Credit

- Interest
- Repayment
- Responsible borrowing

3. Digital banking

- ATM
- Mobile banking
- Internet banking
- UPI
- QR payments
- Cards

4. Protection

- Insurance
- Pension
- Fraud prevention

5. Government schemes

- PMJDY
- PMJJBY
- PMSBY
- APY
- NPS

6. Customer rights

- Receipts
- Charges
- Complaint procedures
- Grievance redressal

Exam-Ready Answer

Financial education is important for banks because it enables customers to understand financial products, services, risks and responsibilities and make informed financial decisions. It promotes financial inclusion, savings, responsible borrowing, digital banking, insurance and pension awareness, and helps prevent fraud and over-indebtedness. For banks, it can improve customer relationships, reduce avoidable disputes and operational burden, support responsible credit behaviour and strengthen trust in the formal banking system. BCs/BFs play an important role in delivering financial education at the last mile.

Key points to remember
Financial Education →
Financial Inclusion
+ Savings
+ Responsible Credit
+ Digital Banking
+ Fraud Awareness
+ Customer Protection
+ Trust
+ Better Banking Relationships
One-line conclusion
For banks, financial education is not merely customer awareness; it is an important tool for responsible financial inclusion, customer protection, risk reduction and sustainable banking growth.

Importance of Financial Education for Banks

1. Meaning of Financial Education
Financial education is the systematic process of providing people with knowledge, skills and awareness about money, banking, financial products, financial risks and financial responsibilities so that they can make **informed and responsible financial decisions**.
For banks, financial education means helping customers understand **how banking products work and how to use them safely and effectively**.

2. Why Financial Education is Important for Banks
Financial education is important to banks because a customer who understands financial products is more likely to:

- Open and actively use a bank account.
- Save regularly.
- Borrow responsibly.
- Repay loans on time.
- Use digital banking safely.
- Purchase suitable insurance/pension products.
- Avoid financial fraud.
- Understand bank charges and terms.
- Use formal financial services instead of unsafe informal channels.

3. Promotes Financial Inclusion
Financial education helps people understand the benefits of formal banking.
It encourages customers to use:

- Savings accounts
- Deposit products
- Credit facilities
- Insurance
- Pension products
- Digital payments

- Remittance services

Result:

Financial Education → Financial Awareness → Financial Participation → Financial Inclusion

This is especially important for **rural, low-income and first-time banking customers**.

4. Increases Savings and Deposits

Banks depend heavily on deposits as a source of funds.

Financial education teaches customers:

- Importance of saving.
- Benefits of regular savings.
- Difference between savings and expenditure.
- How interest works.
- Different deposit products.

This can encourage customers to maintain **regular and formal savings**, strengthening the bank's deposit base.

5. Promotes Responsible Borrowing

Financial education helps customers understand:

- Principal
- Interest
- EMI/installments
- Loan tenure
- Processing charges
- Collateral/security
- Repayment schedule
- Consequences of default

A customer who understands these matters is more likely to borrow according to their **repayment capacity**.

Benefit to banks

It can contribute to:

- Better credit discipline.
- Fewer avoidable defaults.
- Better loan recovery.
- Reduced risk of over-indebtedness.

6. Helps Reduce NPAs

Financial education can contribute to better credit behaviour.

Customers who understand:

Loan → Interest → Instalment → Repayment → Default consequences

are more likely to appreciate the importance of timely repayment.

Thus, financial education can support banks in reducing **avoidable loan defaults and credit-related problems**, although it cannot by itself eliminate NPAs.

7. Promotes Digital Banking

Modern banks increasingly use:

- Mobile banking
- Internet banking
- UPI
- ATMs
- POS terminals
- QR payments
- Debit/credit cards
- Micro-ATMs

Financial education helps customers understand how to use these channels.

Example

A BC/BF can teach a rural customer:

"You can check your balance through the authorized digital channel and should never share your OTP, PIN or UPI PIN with anyone."

This improves both **digital adoption and digital safety**.

8. Reduces Financial Fraud

Financial education helps customers recognize:

- Phishing
- Smishing
- Vishing
- Fake customer-care calls
- Fake loan offers
- Fake investment schemes
- Fake UPI requests
- Fake payment screenshots
- QR-code scams
- Identity theft

Important customer message

Never share OTP, PIN, password, CVV or UPI PIN with anyone.

This protects both **customers and banks**.

9. Reduces Customer Complaints and Disputes

Many complaints arise because customers do not understand:

- Charges
- Interest calculations
- Product conditions
- Loan obligations
- Transaction procedures
- Card usage
- Digital-payment processes

Financial education helps customers understand these matters before using the product.

This can reduce **avoidable misunderstandings, complaints and disputes**.

10. Supports Customer Protection
Financial education promotes:
- Transparency
- Informed choice
- Awareness of charges
- Understanding of terms and conditions
- Awareness of risks
- Knowledge of complaint procedures

It therefore supports the bank's broader **customer-protection responsibilities**.

11. Prevents Mis-selling
Customers who understand financial products are better able to distinguish between:
- Deposit and investment
- Insurance and investment
- Debit card and credit card
- Secured and unsecured loans
- Savings and borrowing

This reduces the possibility of customers purchasing products that they do not understand or need.

12. Builds Customer Trust
A financially educated customer is more likely to understand:
- How the bank operates.
- How transactions are processed.
- Why documents are required.
- What charges apply.
- How complaints are handled.
- How to protect their account.

Greater understanding can increase **confidence and trust in banks**.

13. Reduces Branch Workload
Financially educated customers can perform many routine activities themselves.
For example:
Customer learns → Uses ATM/mobile banking/Internet banking → Fewer routine branch visits
This can reduce pressure on bank employees and allow branches to concentrate on more complex customer requirements.

14. Supports BC/BF Model
Financial education is particularly important for the **Business Correspondent (BC)/Business Facilitator (BF)** model.
BC/BFs can educate customers about:
- Bank accounts
- Deposits
- Loans
- Insurance
- Pension

- UPI
- Mobile banking
- Internet banking
- ATM usage
- Micro-ATMs
- AePS
- RuPay cards
- Fraud prevention
- Grievance redressal

Thus, BC/BFs become an important **last-mile financial education channel**.

15. Promotes Government Financial-Inclusion Schemes

Banks and their BC/BF networks can create awareness about schemes such as:

- **Pradhan Mantri Jan-Dhan Yojana (PMJDY)**
- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**
- **Atal Pension Yojana (APY)**
- **National Pension System (NPS)**
- DBT-related services

Financial education helps customers understand **eligibility, benefits, contributions/premiums, important conditions and procedures**.

16. Encourages Insurance and Pension Planning

Financial education helps customers understand the importance of:

Insurance

Protection against specified financial risks.

Pension

Planning for income/security during retirement.

This can encourage customers to consider suitable financial-protection and retirement products.

17. Promotes Formal Financial Channels

Financial education can help customers understand the risks associated with relying on unregulated or informal financial arrangements.

It encourages the use of:

- Banks
- Regulated financial institutions
- Authorized payment systems
- Formal credit channels

This strengthens the formal financial system.

18. Helps Customers Manage Money Better

Financial education can teach:

Income → Budget → Saving → Necessary expenditure → Insurance → Responsible borrowing → Future planning

Better money management can improve the customer's financial stability and ability to meet banking obligations.

19. Improves Bank–Customer Relationship

The relationship becomes stronger when customers:

- Understand banking products.
- Use services properly.
- Save regularly.
- Repay loans responsibly.
- Use digital channels safely.
- Know their rights and responsibilities.

Therefore, financial education can contribute to **long-term customer relationships**.

20. Supports Sustainable Banking Growth

Financial education creates a positive cycle:

Financial Education
↓
Financially Literate Customers
↓
Better Financial Decisions
↓
Responsible Use of Banking Products
↓
Higher Savings + Responsible Credit + Greater Digital Usage
↓
Better Customer Relationships
↓
Sustainable Banking Growth

21. Importance of Financial Education — Summary Table

Area	Importance to Banks
Financial inclusion	Expands meaningful access to banking
Savings	Encourages regular deposits
Credit	Promotes responsible borrowing
Loan recovery	Improves awareness of repayment obligations
NPA prevention	Can reduce avoidable credit problems
Digital banking	Encourages safe digital-channel usage
Fraud prevention	Makes customers more alert to scams
Customer protection	Promotes informed choice

Area	Importance to Banks
Mis-selling prevention	Helps customers understand products
Complaints	Can reduce avoidable disputes
Branch efficiency	Encourages self-service banking
Government schemes	Improves scheme awareness
Trust	Strengthens confidence in banks
Customer retention	Supports long-term relationships
Banking growth	Supports sustainable expansion

22. Role of Banks in Financial Education

Banks should not leave financial education entirely to customers or BCs. Banks can support it through:

1. Financial-literacy programmes

Conduct awareness programmes for different customer groups.

2. Simple communication

Use simple language and regional languages where appropriate.

3. Digital awareness

Educate customers about safe use of UPI, mobile banking, cards and Internet banking.

4. Credit education

Explain interest, repayment schedules and responsible borrowing.

5. Fraud awareness

Regularly inform customers about emerging fraud techniques.

6. BC/BF training

Train BC/BFs so that they provide **accurate and consistent information**.

7. Grievance awareness

Tell customers where and how to complain when something goes wrong.

23. Financial Education vs Financial Counselling

These should not be confused.

Financial Education

General teaching

Example:

"This is how a fixed deposit works."

Financial Counselling

Individualised guidance

Example:

"Considering your financial requirement, liquidity needs and circumstances, these are the features you should understand before choosing a deposit product."

Financial Literacy

The customer's resulting knowledge and ability

Example:

"The customer understands interest, tenure, liquidity and other relevant features and can make an informed choice."

Easy formula
Education = TEACH
Literacy = UNDERSTAND
Counselling = GUIDE

24. Exam-Ready Answer
Financial education is important for banks because it enables customers to understand banking products, financial risks, rights and responsibilities and make informed financial decisions. It promotes financial inclusion, savings, responsible borrowing, timely repayment, digital banking and awareness of insurance and pension products. It also helps prevent fraud, over-indebtedness, mis-selling and avoidable customer complaints. For banks, financial education can improve customer trust, reduce routine service burdens, support responsible credit behaviour and strengthen long-term customer relationships. BCs and BFs play an important role in delivering financial education at the last mile.
One-line conclusion
Financial education converts financial access into meaningful and responsible use of banking services, benefiting both customers and banks.
Role of RBI in Financial Literacy
The **Reserve Bank of India (RBI)** plays a major role in promoting financial literacy as part of its broader responsibilities for **financial inclusion, customer protection and development of a sound financial system**. RBI describes financial literacy as empowering people to understand financial concepts, make informed choices and appropriately use financial services. (Reserve Bank of India)
1. Promotes Financial Literacy as Part of Financial Inclusion
RBI treats financial literacy as an important **demand-side component of financial inclusion**.
Financial inclusion is not merely opening a bank account. Customers must also know how to:

- Operate their accounts.
- Save and borrow responsibly.
- Use insurance and pension products.
- Make digital payments safely.
- Understand their rights and responsibilities.

Thus:
Financial Access + Financial Literacy → Meaningful Financial Inclusion (Reserve Bank of India)

2. Financial Literacy Centers (FLCs)
One of RBI's important initiatives is the establishment of **Financial Literacy Centres (FLCs)** through banks.
RBI advised Lead Banks to establish FLCs at district headquarters. These centres conduct:

- Financial-literacy programmes.
- Workshops.
- Awareness campaigns.
- Basic financial education.
- Guidance on savings, borrowing and insurance.
- Awareness regarding financial products and services.

As of March 31, 2025, **1,508 FLCs** were operating, and the **Centre for Financial Literacy (CFL)** project had been scaled up to **2,421 CFLs** across the country. (Reserve Bank of India)

3. Centers for Financial Literacy (CFLs)

RBI has promoted the **CFL project** as a community-oriented approach to financial literacy.
CFLs help take financial education closer to people in:

- Villages
- Blocks
- Rural communities
- Financially underserved areas

They conduct camps and awareness programmes on practical financial matters.
The CFL approach is particularly important because **financial literacy has to reach people at the grassroots level**, rather than remain limited to bank branches or urban centers. (Reserve Bank of India)

4. Financial Literacy Camps

RBI provides a framework for banks and FLCs to conduct financial-literacy camps.
Typical topics include:

- Savings
- Budgeting
- Responsible borrowing
- Insurance
- Pension
- Digital banking
- Financial fraud
- Consumer protection
- Government financial-inclusion schemes

RBI has also encouraged the use of audio-visual material and other teaching aids in financial-literacy camps. (Reserve Bank of India)

5. Financial Education Through Bank Branches

RBI has instructed banks to undertake financial education through their **rural branches** as well as through FLCs.
This gives banks a direct role in educating customers about:

- Banking products
- Financial services
- Savings
- Credit
- Insurance
- Digital payments
- Customer protection

Thus, RBI uses the existing banking network as an important channel for financial literacy. (Reserve Bank of India)

6. National Strategy for Financial Education

RBI has played an important role in developing India's **National Strategy for Financial Education (NSFE)**.
The **NSFE 2020–2025** adopted a **5-C approach**:

1. **Content** – develop appropriate financial-education content.
2. **Capacity** – build the capacity of intermediaries.
3. **Community** – use community-led approaches.
4. **Communication** – use appropriate communication strategies.

5. **Collaboration** – coordinate different stakeholders. (Reserve Bank of India)

The strategy recognizes that financial literacy cannot be achieved by RBI alone; it requires cooperation among regulators, government, banks, educational institutions, NGOs and other stakeholders. (System Health)

7. Promotes the National Centre for Financial Education (NCFE)

The **National Centre for Financial Education (NCFE)** is an important institution for financial education in India.
It is promoted by the financial-sector regulators and works to:

- Develop financial-education material.
- Conduct financial-literacy programmes.
- Create awareness campaigns.
- Promote financial education among different sections of society.
- Develop target-specific educational material.

RBI works with NCFE and other regulators/stakeholders in implementing the national financial-education framework. (System Health)

8. Creates Financial-Education Material

RBI develops and disseminates educational material on topics such as:

- Financial products and services
- Good financial practices
- Digital banking
- Consumer protection
- KYC
- Electronic payment systems
- Fraud prevention

RBI has made financial-literacy material available in **multiple Indian languages**, enabling banks and other stakeholders to use it for awareness programmes. (Reserve Bank of India)

9. RBI Kehta Hai

RBI conducts public-awareness activities through initiatives such as **"RBI Kehta Hai"**.
These campaigns communicate important messages about:

- Safe banking.
- Digital payments.
- Fraud prevention.
- Customer rights.
- KYC.
- Banking practices.
- Financial awareness.

RBI continues to update financial-education content through its website and public-awareness initiatives. (Reserve Bank of India)

10. Observes Financial Literacy Week

RBI has been observing **Financial Literacy Week since 2016**.
Every year, important financial-literacy themes are selected for public awareness.
The programme is intended to increase public awareness about relevant financial concepts and responsible financial behaviour. (Reserve Bank of India)

11. Promotes Digital Financial Literacy

As banking becomes increasingly digital, RBI's financial-literacy efforts also address:

- UPI
- Mobile banking
- Internet banking
- Cards
- ATMs
- Electronic fund transfers
- QR payments
- Digital fraud prevention

RBI has specifically recognized the importance of **bridging the digital divide** so that people who lack digital access or skills are not excluded from the financial system. (Reserve Bank of India)

12. Promotes Financial Literacy Among Students

RBI supports financial education for younger people.

Financial education initiatives have included:

- School-level financial education.
- Financial-literacy programmes.
- Student quizzes and competitions.
- Educational material for young people.

The national financial-education framework emphasizes developing money-management skills at an early age. (Reserve Bank of India)

13. Target-Specific Financial Education

RBI recognizes that different groups have different financial needs.

Financial-education material can therefore be designed for groups such as:

- School children
- Young adults
- Women
- Farmers
- Small entrepreneurs
- Self-help groups
- Senior citizens
- New workers
- Retired persons

This makes financial education more relevant and effective. (Reserve Bank of India)

14. Training and Capacity Building

RBI also supports the development of the people who deliver financial education.

This includes capacity building for:

- Bank officials
- Financial-literacy personnel
- Intermediaries
- Other stakeholders involved in financial education

RBI's FLC framework also provides for training BCs in banking products and services and in the use of technological devices for customer service. (Reserve Bank of India)

15. Role in BC/BF Financial Literacy

RBI's financial-literacy framework gives importance to **intermediaries at the grassroots level**, including BCs.
A BC/BF can therefore act as a **last-mile financial-literacy facilitator**.
They can explain:

Banking

- Savings accounts
- Deposits
- Interest
- Account operations

Credit

- Interest rates
- Repayment
- Responsible borrowing
- Consequences of default

Digital banking

- ATM
- Mobile banking
- Internet banking
- UPI
- Micro-ATM
- AePS
- Cards

Protection

- Insurance
- Pension
- Fraud prevention

Customer rights

- Charges
- Receipts
- Complaint mechanisms
- Grievance redressal

16. Promotes Customer Protection

Financial literacy also supports **consumer protection**.
RBI's educational initiatives help customers understand:

- Their rights.
- Their responsibilities.
- Banking charges.
- Safe banking practices.
- Complaint mechanisms.
- Fraud risks.

A knowledgeable customer is better positioned to identify improper practices and seek redressal.

17. Promotes Responsible Credit
RBI's financial-literacy initiatives encourage awareness about responsible borrowing.
Customers should understand:
Loan amount → Interest → Instalment → Tenure → Repayment → Consequences of default
This helps promote responsible credit behaviour and can contribute to healthier borrower-bank relationships.

18. Promotes Safe Digital Payments
RBI's financial-awareness programmes educate customers about safe digital transactions.
Important messages include:

- Do not share OTPs.
- Do not share PINs.
- Do not share passwords.
- Do not disclose UPI PINs.
- Verify payment requests.
- Beware of fake customer-care numbers.
- Report unauthorized transactions promptly.

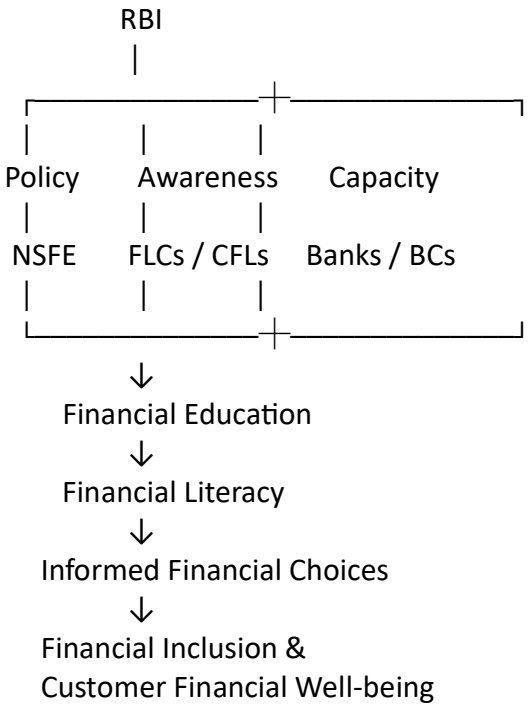
This is increasingly important as digital payments expand.

19. Multi-Stakeholder Approach
RBI does not attempt to achieve financial literacy alone.
The financial-literacy ecosystem involves:
RBI
↓
Other Financial Regulators
↓
Government
↓
Banks & Financial Institutions
↓
NCFE / NABARD / NGOs / Educational Institutions / Community Organizations
↓
FLCs / CFLs / BCs / BF
↓
Customers
The NSFE specifically emphasizes **collaboration among stakeholders**. (Reserve Bank of India)

20. RBI's Role — Summary Table

RBI initiative/role	Purpose
Financial Literacy Centres	Grassroots financial education
CFL project	Community-level financial literacy
Financial Literacy Camps	Direct public awareness
Rural branch financial education	Reach rural customers
National Strategy for Financial Education	National framework and coordination
NCFE collaboration	Develop and disseminate financial education
Financial Literacy Week	Nationwide awareness
RBI Kehta Hai	Public financial-awareness campaigns
Educational material	Simple, multilingual financial education
Digital financial literacy	Safe use of digital financial services
Student programmes	Build financial capability early
BC/BF capacity building	Strengthen last-mile financial education
Customer protection awareness	Help customers understand rights and avoid fraud

21. RBI and Financial Literacy — Diagram



22. Important Exam Points

If asked **"State the role of RBI in financial literacy"**, write these points:

1. **Promotes financial literacy as part of financial inclusion.**
2. **Establishes/promotes Financial Literacy Centers through banks.**
3. **Supports the Centre for Financial Literacy (CFL) initiative.**
4. **Promotes financial-literacy camps.**
5. **Encourages rural branches to conduct financial education.**
6. **Develops and supports the National Strategy for Financial Education.**
7. **Works with NCFE and other regulators/stakeholders.**
8. **Develops financial-education material in multiple languages.**
9. **Conducts public-awareness campaigns such as RBI Kehta Hai.**
10. **Observes Financial Literacy Week.**
11. **Promotes digital financial literacy and fraud awareness.**
12. **Supports financial education for students and specific target groups.**
13. **Builds capacity of banks, BCs and other intermediaries.**
14. **Promotes customer protection and awareness of rights.**
15. **Coordinates a multi-stakeholder approach to financial literacy.**

Exam-Ready Answer

The Reserve Bank of India plays a major role in promoting financial literacy as part of its financial-inclusion and customer-protection objectives. It promotes Financial Literacy Centres and the Centre for Financial Literacy project, encourages banks and rural branches to conduct financial-literacy camps, develops financial-education material, conducts public-awareness initiatives such as RBI Kehta Hai and Financial Literacy Week, and works with the National Centre for Financial Education and other stakeholders under the National Strategy for Financial Education. RBI also promotes digital financial literacy, fraud awareness, responsible borrowing, savings, insurance and pension awareness, and capacity building of banks and financial intermediaries including BCs. Through these measures, RBI seeks to enable people to make informed financial choices and use formal financial services safely and effectively. (Reserve Bank of India)

One-line conclusion

RBI's role is to create the policy, institutional, educational and awareness framework through which people can become financially literate and participate safely and effectively in the formal financial system.

Module C: TECHNICAL SKILLS
Chapter 19: How to Deal with Different Types of Customers?
19.1 Objective
19.2 Introduction
19.3 Soft skills and Hard skills
19.4 Soft Skills to Build Relationships
19.5 Dealing with different types of customers
19.6 How to maintain trust in the client relationship?
19.7 How to deal with a complaint?
19.8 Do's and Don'ts for handling Customer Complaints
19.9 Duties of a Bank

Different Types of Customers for BC/BF and Banks

Banks and **Business Correspondents (BCs)/Business Facilitators (BFs)** deal with a wide variety of customers. Understanding customer types is important because the customer's **age, occupation, legal status, financial needs, risk profile and banking requirements** determine the appropriate banking services and the manner in which the bank/BC/BF should serve them.

1. Customers Based on Individual or Institutional Status
A. Individual Customers
These are natural persons who use banking services for their personal financial needs.
Examples

- Salaried employees
- Businesspersons
- Farmers
- Students
- Homemakers
- Senior citizens
- Pensioners
- Self-employed persons
- Daily-wage workers

Banking needs

- Savings accounts
- Deposits
- Loans
- Debit cards
- UPI
- Mobile banking
- Insurance
- Pension
- Remittances

BC/BF role: Explain products, facilitate account opening and transactions within their authorized functions, and provide financial-literacy assistance.

2. Minor Customers

A **minor** is a person below the legally applicable age of majority.

Banks may allow minors to have accounts subject to applicable rules and the bank's policies.

Possible services

- Savings account
- Deposits
- Educational savings
- Other permitted services

BC/BF should

- Follow the bank's minor-account procedures.
- Deal appropriately with the guardian where required.
- Ensure proper documentation.
- Avoid treating the minor as an ordinary adult customer where the rules differ.

3. Senior Citizen Customers

Senior citizens may have specific banking requirements.

Common needs

- Pension accounts
- Savings accounts
- Fixed deposits
- Interest income
- Nomination
- Safe and accessible banking
- Assistance with digital banking

BC/BF role

Provide patient and clear assistance and help customers understand the services available to them.

4. Farmers / Agricultural Customers

Farmers are important customers in rural banking.

Banking needs

- Crop loans
- Kisan Credit Card (KCC)
- Agricultural term loans
- Savings accounts
- Insurance
- Pension
- Remittances
- Government benefits/DBT

BC/BF role

- Explain appropriate banking facilities.
- Facilitate eligible applications.
- Create awareness of responsible borrowing.

- Assist with banking transactions where authorized.

5. Small Business Customers

These include:

- Small shopkeepers
- Traders
- Street vendors
- Service providers
- Micro-enterprises
- Small manufacturers

Banking needs

- Current accounts
- Working-capital finance
- Term loans
- Digital payment acceptance
- POS terminals
- QR payments
- Business insurance
- Remittance services

6. MSME Customers

MSME = Micro, Small and Medium Enterprises.

These customers may require:

- Working-capital loans
- Term loans
- Cash credit
- Overdraft
- Equipment finance
- Digital banking
- Payment/collection services

BC/BFs can help with **information and facilitation within their authorized functions**, while credit decisions remain with the bank according to its procedures.

7. Salaried Customers

Salaried employees commonly need:

- Salary accounts
- Savings accounts
- Personal loans
- Home loans
- Vehicle loans
- Credit cards
- Insurance
- Investments/deposits
- Digital banking

8. Self-Employed Customers

Examples include:

- Professionals
- Freelancers
- Consultants
- Shop owners
- Contractors
- Small entrepreneurs

They may need:

- Savings/current accounts
- Business loans
- Working capital
- Digital payment facilities
- Tax/payment services
- Insurance

9. Students / Young Customers

Students may require:

- Savings accounts
- Education loans
- Debit cards
- UPI
- Mobile banking
- Remittance services

Financial education is particularly important

BC/BFs can explain:

- Saving habits
- Digital-payment safety
- Responsible use of credit
- Fraud prevention

10. Women Customers

Women may use banking services for:

- Savings
- Self-help groups
- Micro-enterprises
- Loans
- Insurance
- Pension
- Government benefits

Financial literacy can help women make independent and informed financial decisions.

11. Low-Income / Financially Excluded Customers

These customers may have limited access to formal financial services.

Possible needs

- Basic savings accounts
- Remittances
- DBT
- Insurance
- Pension
- Small loans
- Digital payments

BC/BF importance

BCs are particularly valuable because they provide **last-mile access** where a branch may be distant.

12. Self-Help Groups (SHGs)

An **SHG** is a group of individuals, often formed for savings, credit and livelihood purposes.

Banks may provide:

- Savings facilities
- SHG-bank linkage
- Credit facilities
- Financial-literacy support

BC/BF can assist with banking-related information and facilitation where authorized.

13. Joint Account Customers

A bank account can be held jointly by two or more individuals.

Examples of operating instructions include:

- Either or Survivor
- Jointly
- Former or Survivor
- Anyone or Survivor

The exact mandate and permitted operations depend on the account agreement and applicable rules.

14. Sole Proprietorship Customers

A sole proprietorship is a business owned and controlled by one individual.

The bank may require appropriate documents establishing:

- Identity
- Address
- Business existence
- Tax/registration details where applicable

The proprietor and business are not separate legal persons in the same way as a company.

15. Partnership Firm Customers

A partnership firm consists of partners carrying on business under a partnership arrangement.
The bank may need:

- Partnership deed
- Registration-related documents where applicable
- KYC of partners/authorized persons
- Account-opening mandate

The bank must identify the persons authorized to operate the account.

16. Company Customers

Companies may be:

- Private companies
- Public companies
- Other incorporated entities

They generally require more extensive documentation and identification of:

- Company
- Directors
- Authorized signatories
- Beneficial owners as applicable

Common banking needs

- Current accounts
- Loans
- Cash management
- Payroll
- Trade finance
- Digital banking
- Payment services

17. Trusts

Trusts may maintain bank accounts subject to applicable requirements.
The bank generally needs to establish:

- Trust identity
- Trustees
- Beneficial/controlling persons as applicable
- Authorized signatories
- Relevant trust documents

18. Societies and Associations

Examples:

- Resident welfare associations
- Charitable organizations
- Educational associations
- Clubs
- Community organizations

The bank needs appropriate documents and an operating mandate.

19. Government / Institutional Customers

Banks also provide services to:

- Government departments
- Government institutions
- Local bodies
- Educational institutions
- Other organizations

Their banking requirements can include:

- Collection
- Payments
- Salary processing
- Account management
- Government-related transactions

20. Non-Resident Customers

Banks also deal with **Non-Resident Indians (NRIs)** and other eligible non-resident customers.

They may use accounts such as:

- NRE accounts
- NRO accounts
- FCNR(B) deposits

The applicable eligibility, documentation and regulatory requirements must be followed.

21. Customers Based on Banking Relationship

Another useful classification is:

A. Deposit Customers

Customers who keep money with the bank.

Examples:

- Savings account holders
- Current account holders
- Fixed deposit holders
- Recurring deposit holders

B. Borrowing Customers

Customers who obtain credit.

Examples:

- Home-loan borrowers
- Agricultural borrowers
- MSME borrowers
- Personal-loan borrowers

C. Both Deposit and Borrowing Customers

Many customers maintain deposits and also borrow from the same bank.

22. Customers Based on Banking Channel

BC/BF and banks may serve customers through:

Branch customers

Customers visiting physical branches.

ATM customers

Customers using ATMs.

Digital customers

Customers using:

- Mobile banking
- Internet banking
- UPI

BC customers

Customers using banking services through an authorized BC.

Micro-ATM customers

Customers accessing permitted services through BC-operated Micro-ATMs.

23. Customers Particularly Important for BC/BF

For the BC/BF model, the following groups are especially significant:

1. **Rural customers**
2. **Small and marginal farmers**
3. **Low-income customers**
4. **First-time bank customers**
5. **Small traders**
6. **Micro-enterprises**
7. **Women and SHGs**
8. **Senior citizens**
9. **Pensioners**
10. **Customers in remote/underserved areas**
11. **Customers requiring DBT services**
12. **Customers with limited digital literacy**

24. BC/BF Customer Service Responsibilities

A BC/BF should provide services **within the scope authorized by the bank and applicable regulations**.

A. Customer identification

Follow prescribed KYC/customer-identification procedures.

B. Account opening assistance

Help customers understand and complete the authorized account-opening process.

C. Transaction assistance

Facilitate permitted:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Fund transfer
- Other authorized services

D. Financial education

Explain:

- Savings
- Credit
- Insurance
- Pension
- Digital banking
- Fraud prevention

E. Grievance assistance

Tell customers how to raise complaints and where to approach the bank.

F. Customer protection

- Provide transaction confirmation/receipts.
- Protect customer information.
- Do not misuse customer credentials.
- Do not charge unauthorized fees.
- Do not mis-sell products.

25. Special Care for Vulnerable Customers

Some customers may need additional assistance, such as:

- Senior citizens
- Persons with disabilities
- Low-literacy customers
- First-time banking customers
- Customers unfamiliar with digital technology

The BC/BF should communicate in a **simple, clear and respectful manner** and follow applicable accessibility/customer-protection requirements.

26. Customer Classification for KYC/Risk Purposes

Banks may also classify customers based on **risk**, in accordance with applicable KYC/AML requirements.
Broadly, customers may be categorized according to factors such as:

- Customer identity
- Nature of business
- Source of funds
- Geography
- Transaction pattern
- Products/services used
- Other relevant risk factors

Important

Risk classification is not the same as social or economic classification.

A customer being a farmer, senior citizen or student does not automatically determine their AML risk category.

27. Customer Types — Quick Revision Table

Customer type	Typical banking needs
Individual	Savings, payments, deposits
Minor	Savings/deposits
Senior citizen	Deposits, pension, safe banking
Farmer	KCC, crop/agricultural loans
Small trader	Current account, working capital, POS/QR
MSME	Loans, working capital, payments
Salaried	Salary account, loans, cards
Student	Savings, education loan, digital banking
Women/SHG	Savings, credit, livelihood finance
Low-income customer	Basic banking, DBT, insurance, pension
Joint account	Shared banking relationship
Sole proprietor	Business banking
Partnership	Business account, credit
Company	Corporate banking, loans, payments
Trust/Society	Institutional banking
Government institution	Collections, payments, accounts
NRI	NRI deposits/accounts, remittances

28. Most Important Classification for BC/BF Examination

You can remember customers under **5 broad categories**:

1. Individual customers

Farmers + workers + salaried + students + senior citizens

2. Small-business customers

Traders + vendors + self-employed + MSMEs

3. Group customers

SHGs + societies + associations

4. Institutional customers

Partnerships + companies + trusts + government institutions

5. Financial-inclusion customers

Rural + low-income + first-time + underserved customers

29. Customer Service Approach
Different customers require different approaches:
Identify customer
↓
Understand financial need
↓
Explain suitable authorized services
↓
Explain costs, risks and conditions
↓
Customer makes informed choice
↓
Facilitate service/transaction
↓
Provide receipt/confirmation
↓
Explain grievance mechanism

Exam-Ready Answer
Banks and BC/BFs serve different categories of customers, including individuals, minors, senior citizens, farmers, salaried persons, students, women, small traders, MSMEs, SHGs, sole proprietorships, partnership firms, companies, trusts, societies, government institutions and non-resident customers. For BC/BFs, rural customers, farmers, low-income groups, first-time banking customers, small businesses and financially underserved customers are particularly important. BC/BFs assist customers with authorized banking services, account opening, transactions, financial literacy, digital banking, insurance and pension awareness, and grievance guidance. They must follow KYC, customer-protection, confidentiality and other applicable requirements while providing these services.

Golden formula for BC/BF

Identify → Understand → Educate → Facilitate → Protect → Resolve
This is the basic approach a BC/BF should follow while dealing with different categories of bank customers.

Soft Skills and Hard Skills for BC/BF
For a **Business Correspondent (BC)** or **Business Facilitator (BF)**, both **soft skills** and **hard skills** are essential. A BC/BF works as an important link between the **bank and customers**, especially at the last mile.
Soft skills = How you deal with people
Hard skills = What technical/banking work you can perform

1. What are Soft Skills?
Soft skills are personal, interpersonal and behavioral abilities that help a BC/BF communicate effectively, build trust and deal professionally with customers.

Simple definition

Soft skills are non-technical skills that determine how effectively a BC/BF communicates, behaves, solves problems and maintains relationships with customers, bank officials and other stakeholders.

2. Important Soft Skills for BC/BF

A. Communication Skills

A BC/BF must communicate banking information in **simple and understandable language**.

They should be able to explain:

- Account opening
- Deposits
- Loans
- Insurance
- Pension
- Digital banking
- ATM/Micro-ATM usage
- Charges and conditions

Example

Instead of using complicated banking terminology, explain an EMI as:

"This is the amount you have to pay regularly towards your loan according to the repayment schedule."

3. Listening Skills

A BC/BF should listen carefully to understand the customer's actual requirement.

For example:

A customer says:

"I need money."

The BC/BF should determine whether the customer needs:

- A loan
- Withdrawal from an account
- Remittance
- Emergency financial assistance information
- Another banking service

Good listening prevents wrong guidance.

4. Customer Service Skills

BC/BFs frequently deal directly with customers.

They should:

- Be polite.
- Be patient.
- Respond clearly.
- Explain procedures.
- Handle complaints appropriately.
- Treat customers fairly.

5. Empathy

Empathy means understanding the customer's situation and difficulties.

This is particularly important when dealing with:

- Senior citizens
- First-time banking customers
- Low-literacy customers
- Rural customers
- Persons unfamiliar with digital technology

6. Patience

Some customers may need repeated explanations.

A good BC/BF should not:

❌ Become irritated.

❌ Rush the customer.

❌ Use unnecessarily complicated language.

Instead:

Explain → Demonstrate → Allow customer to understand → Confirm understanding

7. Trust-Building

Customers may hand over important financial information or conduct transactions through the BC.

Therefore, the BC/BF must demonstrate:

- Honesty
- Transparency
- Reliability
- Professional behaviour
- Confidentiality

Trust is especially important in financial inclusion.

8. Integrity and Ethical Behaviour

A BC/BF handles customers' financial transactions and information.

They must:

- Avoid mis-selling.
- Never manipulate transactions.
- Never charge unauthorized fees.
- Never misuse customer information.
- Never misuse customer credentials.
- Provide accurate information.
- Put customer interests first.

Golden principle

Do not exploit the customer's lack of financial knowledge.

9. Problem-Solving Skills
BC/BFs may encounter:
- Failed transactions
- Network problems
- Biometric failures
- Device problems
- Customer complaints
- Incorrect transaction details

They should remain calm and follow the **bank's prescribed procedure**.

10. Conflict-Management Skills
A customer may become angry because:
- A transaction failed.
- Cash was not received.
- A payment is delayed.
- A service is unavailable.

The BC/BF should:
Listen → Understand → Explain → Check → Escalate when necessary
They should not argue with the customer or make false promises.

11. Local-Language Skills
A BC/BF should ideally be able to communicate in the **local language or language understood by customers**.
This is particularly important in rural financial inclusion.

12. Financial-Literacy Skills
A BC/BF should be able to explain basic concepts such as:
- Savings
- Interest
- Loans
- EMI
- Insurance
- Pension
- Digital payments
- Financial fraud
- Customer rights

This allows the BC/BF to act as a **financial-literacy facilitator**.

13. Sales and Relationship Skills
BC/BFs may facilitate the sourcing of banking products within their authorized role.
They should be able to:
- Identify genuine customer needs.
- Explain suitable products.
- Explain costs and conditions.
- Avoid aggressive selling.
- Avoid misrepresentation.

Important
Good BC/BF selling is need-based, transparent and ethical—not forced selling.

14. Time Management
A BC/BF may have to handle:

- Customer transactions
- Documentation
- Digital devices
- Cash management
- Customer enquiries
- Reports
- Follow-up activities

Good time management helps maintain efficient service.

PART II — HARD SKILLS

15. What are Hard Skills?
Hard skills are the specific technical, operational and banking-related abilities required to perform the BC/BF's authorized duties.
Simple definition
Hard skills are measurable technical and professional skills that enable a BC/BF to perform banking, digital, documentation and transaction-related tasks correctly.

16. Banking Knowledge
A BC/BF should understand basic banking concepts:

- Savings accounts
- Current accounts
- Deposits
- Loans
- Interest
- KYC
- Nomination
- Account operations
- Banking charges
- Customer rights
- Grievance mechanisms

17. KYC and Customer Identification
BC/BFs need to understand the bank's prescribed procedures for:

- Customer identification
- KYC documentation
- Account opening
- Customer verification
- Periodic KYC-related requirements
- Appropriate record handling

They must follow applicable **KYC/AML requirements**.

18. Digital Banking Skills
A BC/BF should be familiar with:

- Mobile banking
- Internet banking
- UPI
- QR payments
- ATMs
- POS terminals
- Micro-ATMs
- AePS
- RuPay cards
- Electronic fund transfers

19. Micro-ATM Handling
A BC/BF should know how to:

- Start/login to the authorized device.
- Connect to the network.
- Select the correct transaction.
- Authenticate the customer as prescribed.
- Process cash withdrawal/deposit where authorized.
- Generate receipts.
- Check transaction status.
- Handle failed/pending transactions.
- Reconcile transactions.

20. Biometric Device Handling
Where biometric authentication is used, the BC/BF should know:

- How to operate the biometric scanner.
- How to position the customer's finger appropriately.
- How to handle authentication failure.
- How to protect biometric information.
- How to follow prescribed security procedures.

Important
The BC/BF must **never misuse or improperly store biometric/customer information**.

21. POS Terminal Skills
A BC/BF or merchant-facing banking agent may need to understand:

- Card insertion
- Contactless/tap transactions
- PIN entry procedures
- Transaction confirmation
- Receipt generation
- Failed transactions

- Settlement/reconciliation

22. Cash Management
Where the BC is authorized to handle cash, cash management is a critical hard skill.
The BC should maintain:
Opening Cash + Cash Received − Cash Paid = Closing Cash
The physical cash should reconcile with the transaction records.
Any discrepancy must be handled according to the bank's prescribed process.

23. Basic Connectivity Troubleshooting
A BC/BF should know basic troubleshooting for:

- Mobile network failure
- SIM problems
- Wi-Fi problems
- Device connectivity
- Server communication problems
- Application errors
- Battery problems

Basic process
Check battery → Check network → Check SIM/data → Restart/reconnect if permitted → Check transaction status → Escalate

24. Transaction Processing Skills
The BC/BF should be able to correctly process authorized transactions such as:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Mini statement
- Fund transfer
- Bill payment
- Other permitted services

Accuracy is critical.

25. Digital Fraud and Cybersecurity Skills
BC/BFs should understand common frauds such as:

- Phishing
- Smishing
- Vishing
- Fake UPI requests
- Fake QR scams
- Fake customer-care calls
- Fake payment screenshots
- OTP fraud
- PIN theft
- Identity theft

They should know how to educate customers and escalate suspected fraud.

26. Documentation and Record-Keeping
BC/BFs need skills in maintaining:

- Customer records
- Transaction records
- Receipts
- Cash records
- Application documents
- Service-request records
- Complaint records
- Reconciliation records

Records must be maintained according to the bank's procedures.

27. Product Knowledge
A BC/BF should understand the features and conditions of products they are authorized to facilitate.
Examples:
Deposits

- Savings
- Fixed deposits
- Recurring deposits

Credit

- Agricultural loans
- KCC
- MSME loans
- Other eligible loans

Insurance

- PMJJBY
- PMSBY
- Other authorized products

Pension

- APY
- NPS

The BC/BF should **not provide inaccurate or unauthorized product information**.

28. Financial Counselling Skills
BC/BFs need sufficient technical knowledge to explain:

- Savings
- Interest
- Credit
- Repayment
- Insurance
- Pension
- Digital payments
- Financial risks

They should help customers make **informed choices**, within the scope of their role.

29. Soft Skills vs Hard Skills

Soft Skills	Hard Skills
Communication	Banking knowledge
Listening	KYC procedures
Empathy	Micro-ATM operation
Patience	Biometric-device handling
Integrity	POS operation
Customer service	Cash management
Problem solving	Digital banking
Conflict management	UPI/AePS knowledge
Trust building	Transaction processing
Local-language ability	Record keeping
Ethical selling	Connectivity troubleshooting
Time management	Product knowledge

30. Example: Handling a Customer Withdrawal

A good BC/BF needs **both types of skills**.

Hard skills

The BC must know how to:

- Operate the Micro-ATM.
- Authenticate the transaction.
- Process withdrawal.
- Check transaction status.
- Record/reconcile cash.
- Provide receipt.

Soft skills

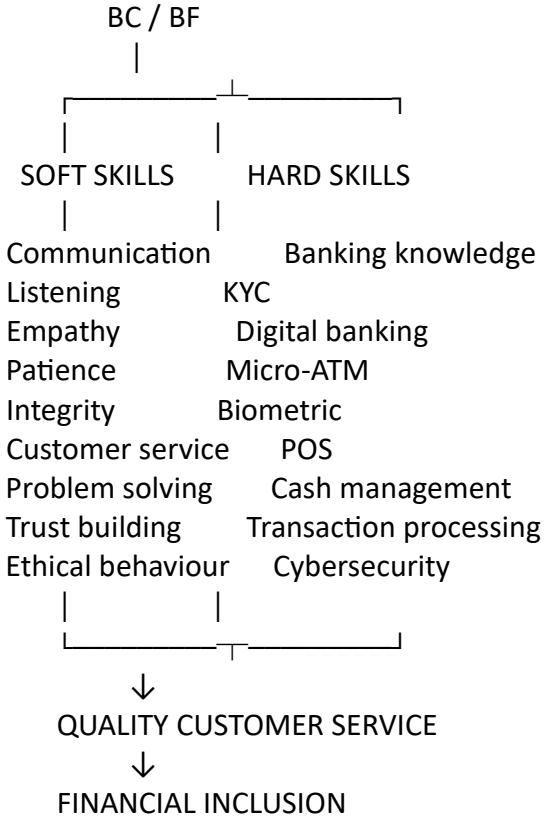
The BC must:

- Communicate clearly.
- Protect customer privacy.
- Be patient.
- Reassure the customer if there is a technical problem.
- Explain the transaction.
- Maintain integrity.

Therefore:

Technical competence without customer skills can lead to poor service; customer skills without technical competence can lead to transaction errors.

31. Skills Required for a Successful BC/BF



32. Most Important Soft Skills for BC/BF

Remember:

C-L-E-A-R-I-P

- **C** – Communication
- **L** – Listening
- **E** – Empathy
- **A** – Adaptability
- **R** – Relationship building
- **I** – Integrity
- **P** – Patience

33. Most Important Hard Skills for BC/BF

Remember:

B-K-D-M-C-T

- **B** – Banking knowledge
- **K** – KYC/AML knowledge
- **D** – Digital banking
- **M** – Micro-ATM/biometric handling
- **C** – Cash & connectivity management
- **T** – Transaction processing

34. Exam-Ready Answer

Soft skills are interpersonal and behavioral abilities that enable a BC/BF to communicate effectively, understand customer needs, build trust, handle complaints and provide ethical customer service. Important soft skills include communication, listening, empathy, patience, integrity, problem-solving, conflict management, relationship building and local-language ability.
Hard skills are technical and operational abilities required to perform authorized BC/BF functions. They include banking and product knowledge, KYC/AML procedures, account-opening procedures, Micro-ATM and biometric-device handling, POS operation, digital banking, UPI/AePS knowledge, cash management, transaction processing, record keeping, basic connectivity troubleshooting and cybersecurity awareness.
Final distinction
Soft skills determine how a BC/BF deals with the customer; hard skills determine how correctly and safely the BC/BF performs the banking work.
An effective BC/BF needs both:
Good Behaviour + Technical Competence + Ethics = Effective BC/BF

Essential Soft Skills for BC/BF to Build Relationships with All Kinds of People
A **Business Correspondent (BC)** or **Business Facilitator (BF)** is often the **face of the bank at the customer's doorstep**. Unlike a branch employee who mainly deals with customers who come to the bank, a BC/BF may interact with people from different ages, occupations, education levels, income groups, languages and social backgrounds.
Therefore, **relationship-building skills are as important as banking knowledge**.
A successful BC/BF should be able to make every customer feel respected, understood, safe and confident.

1. Effective Communication
The most important skill is the ability to **communicate clearly and simply**.
A BC/BF should:

- Use language the customer understands.
- Avoid unnecessary banking jargon.
- Explain one point at a time.
- Speak clearly and politely.
- Confirm that the customer has understood.
- Adapt communication to the customer's level of knowledge.

Example
Instead of saying:
"Your account requires biometric authentication for transaction authorization."
Say:
"The machine will verify your identity using your fingerprint before completing the transaction."

2. Active Listening

Listening is more important than simply talking.

A BC/BF should:

- Listen without interrupting.
- Understand the customer's actual requirement.
- Ask relevant questions.
- Pay attention to concerns.
- Repeat important information to confirm understanding.

Example

If a customer says, **"I need money urgently,"** don't immediately suggest a loan.

First understand whether the person needs:

- Withdrawal from their own account,
- A remittance,
- A loan,
- A government benefit,
- Or some other service.

3. Empathy

Empathy means trying to understand the customer's situation and feelings.

A BC/BF may deal with a customer who is:

- Worried about money.
- Confused about banking.
- Afraid of digital technology.
- Unable to read a document easily.
- Angry because a transaction failed.

Instead of blaming the customer, the BC/BF should respond patiently:

"I understand that this is frustrating. Let us check what happened and see what can be done."

4. Patience

Patience is essential when serving:

- Elderly customers
- First-time customers
- Low-literacy customers
- Customers unfamiliar with smartphones
- Customers who need repeated explanations

A BC/BF should **never make a customer feel embarrassed because they do not understand banking or technology**.

5. Respect for Every Customer

Every customer should be treated with:

- Dignity
- Courtesy
- Fairness
- Respect
- Professionalism

The BC/BF should not discriminate based on:

- Income
- Occupation
- Age
- Gender
- Education
- Social status
- Rural/urban background

Golden principle

Every customer deserves the same basic respect, whether the transaction is ₹100 or ₹1 lakh.

6. Trustworthiness

Banking is fundamentally a **trust-based activity**.

Customers may share:

- Personal information
- Account details
- Financial information
- Identity documents

Therefore, a BC/BF must be:

- Honest
- Reliable
- Transparent
- Consistent
- Confidential

Trust is built through **small actions repeated consistently**.

7. Integrity and Ethical Behaviour

A BC/BF should always act ethically.

They must not:

- Mislead customers.
- Hide charges.
- Force customers to buy products.
- Misrepresent loan/insurance benefits.
- Manipulate transactions.
- Take unauthorized money.
- Misuse customer information.
- Exploit a customer's lack of financial knowledge.

Relationship rule

Never sacrifice customer trust for a short-term commission or transaction.

8. Emotional Intelligence

Emotional intelligence (EQ) is the ability to understand and manage one's own emotions and respond appropriately to other people's emotions.

A BC/BF with good emotional intelligence can:

- Remain calm under pressure.
- Understand customer frustration.
- Avoid unnecessary arguments.
- Handle difficult conversations.
- Build stronger relationships.

Example

If a customer becomes angry because a transaction failed:

Poor response:

"You don't understand. It is a network problem."

Better response:

"I understand your concern. Let me check the transaction status first so that we don't accidentally process it twice."

9. Cultural Sensitivity

BC/BFs may interact with people from different:

- Communities
- Languages
- Cultures
- Traditions
- Educational backgrounds

They should avoid making assumptions or using language that may offend customers.

Good practice

Respect differences → Adapt communication → Build trust

10. Local-Language Ability

Where possible, a BC/BF should communicate in the **local language or language preferred by the customer**.

This is particularly useful in rural and semi-urban areas.

Using familiar language can make customers:

- More comfortable
- More willing to ask questions
- Better able to understand products
- More confident using banking services

11. Simplicity in Explaining Financial Products
Banking terminology can be confusing.
A BC/BF should explain:

- Interest
- EMI
- Premium
- Tenure
- Charges
- Insurance
- Pension
- Loan conditions

in simple terms.
Example
Instead of:
"The loan carries a floating rate of interest."
Explain what that means in practical terms and what the customer should understand about possible changes, according to the product terms.

12. Ability to Explain Without Pressuring
A good BC/BF should **educate rather than pressure**.
Poor approach
"You must take this insurance."
Good approach
"This product provides the following coverage and has these costs and conditions. Let me explain them so you can decide whether it is suitable for you."
This builds long-term trust.

13. Problem-Solving Ability
Customers may come with problems rather than simple transactions.
Examples:

- ATM card retained.
- Micro-ATM transaction failed.
- Money debited but cash not received.
- UPI payment failed.
- Account-related service issue.
- Customer does not understand a charge.

The BC/BF should:
Listen → Identify the problem → Explain → Take permitted action → Escalate if necessary → Follow up

14. Conflict-Management Skills

Disagreements may occur.

The BC/BF should:

- Stay calm.
- Avoid arguing.
- Listen to both sides where relevant.
- Explain facts clearly.
- Avoid making promises they cannot keep.
- Escalate matters beyond their authority.

Never say:

"It is not my problem."

Instead:

"This issue requires the bank's intervention. I will explain the appropriate procedure for raising it."

15. Positive Attitude

A positive attitude makes customers more comfortable.

This includes:

- Greeting customers politely.
- Being approachable.
- Showing willingness to help.
- Remaining calm.
- Avoiding negative or dismissive language.

16. Patience with Digital Illiteracy

Some customers may be unfamiliar with:

- Smartphones
- UPI
- QR codes
- ATMs
- Mobile banking
- Internet banking

The BC/BF should **teach rather than ridicule**.

For example:

"I'll show you how to check the recipient's name before you approve the payment."

This simultaneously provides service and financial/digital education.

17. Teaching Skills

A BC/BF is also a **financial-literacy facilitator**.

They should be able to teach customers about:

- Savings
- Loans
- Insurance
- Pension
- Digital payments
- Fraud prevention

- Banking rights and responsibilities

Good teaching method
Explain → Demonstrate → Let customer try → Confirm understanding

18. Persuasion Without Manipulation
BC/BFs may need to encourage customers to adopt appropriate banking services.
Good persuasion means:
Explain benefits + explain costs/risks + allow customer choice
Bad persuasion means:
Pressure + hide information + create fear + force a transaction

19. Confidentiality
Customers must feel that their personal and financial information is safe.
A BC/BF should:

- Speak privately when appropriate.
- Protect documents.
- Avoid discussing customer finances publicly.
- Never disclose confidential information unnecessarily.
- Never ask customers to reveal confidential PINs/UPI PINs/OTP/passwords.

Trust formula
Confidentiality → Trust → Strong relationship

Different customers require different approaches.
Example
Young digital customer:
Can receive a technical explanation.
Senior citizen:
May require slower, clearer, repeated explanation.
Farmer:
May need examples related to seasonal income and agricultural finance.
Small trader:
May be more interested in working capital and digital merchant payments.
First-time customer:
May need basic explanations about accounts and banking.
The BC/BF should **adapt without compromising accuracy or fairness**.

20. Adaptability

21. Time Management
A BC/BF may have several customers waiting.
Good time management means:

- Serving customers efficiently.
- Avoiding unnecessary delays.
- Prioritizing urgent issues appropriately.
- Maintaining transaction accuracy despite time pressure.

Important
Speed should never come at the cost of accuracy or customer safety.

22. Confidence
A BC/BF should be confident enough to:

- Explain products.
- Operate banking devices.
- Answer basic questions.
- Handle customer concerns.
- Escalate issues appropriately.

But confidence should **not become overconfidence**.
If the BC/BF does not know an answer:
"I don't want to give you incorrect information. Let me verify this with the bank."
That response actually **increases trust**.

23. Reliability and Follow-Up
Relationship building requires consistency.
If a BC/BF says:
"I will help you check the status."
they should follow through according to their role.
Reliability means:
Promise less → Deliver consistently → Build credibility

24. Professional Appearance and Behaviour
A BC/BF represents the bank.
Professional behaviour includes:

- Appropriate appearance.
- Polite language.
- Punctuality.
- Clean and organized workspace/device.
- Respectful conduct.
- Proper handling of documents and cash.

25. Negotiation Skills
Some situations may require balancing customer expectations with bank procedures.
A BC/BF should explain:

- What they can do.
- What they cannot do.
- What requires bank approval.
- What procedure the customer must follow.

They should never negotiate away mandatory banking or regulatory requirements.

26. Complaint-Handling Skills

A complaint should be treated as an opportunity to solve a problem.

Good process
Listen carefully
↓
Do not argue
↓
Understand facts
↓
Explain the next step
↓
Record/escalate where required
↓
Give appropriate acknowledgement/reference
↓
Follow up within authority

27. Building Relationships with Different Customer Groups

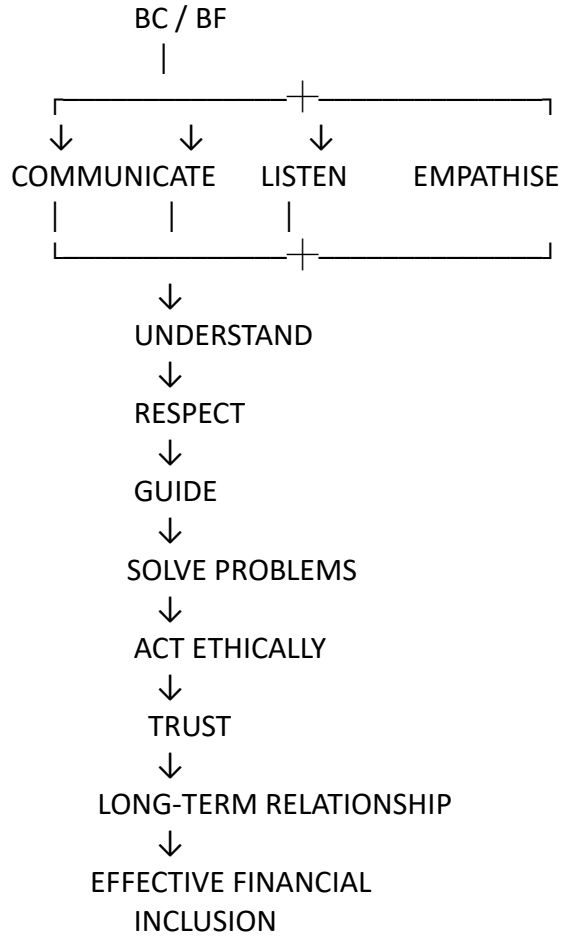
Customer	Important soft skills
Senior citizen	Patience, empathy, clear communication
Farmer	Listening, local-language ability, practical explanation
Student	Digital communication, financial education
Small trader	Efficiency, business understanding, relationship building
First-time customer	Patience, teaching ability
Low-literacy customer	Simple language, empathy, demonstration
Digital user	Technical communication, fraud awareness
Angry customer	Emotional control, conflict management
Women/SHGs	Respect, listening, group communication
Person with disability	Patience, accessibility awareness, respectful assistance

28. The 10 Most Essential Soft Skills

For examination purposes, remember these **10**:

1. **Communication**
2. **Active listening**
3. **Empathy**
4. **Patience**
5. **Respect**
6. **Integrity**
7. **Trust-building**
8. **Problem-solving**
9. **Emotional intelligence**
10. **Adaptability**

29. Soft Skills and Customer Relationship — Diagram



30. Golden Rules for BC/BF Relationship Building

1. Listen before advising.
2. Explain before selling.
3. Verify before processing.
4. Be honest even when the answer is inconvenient.
5. Never exploit a customer's lack of knowledge.
6. Protect customer confidentiality.
7. Never argue with an upset customer.
8. Never make promises beyond your authority.
9. Treat every customer with dignity.
10. Put long-term trust above short-term gain.

31. Exam-Ready Answer

The essential soft skills required by a BC/BF to build relationships with all kinds of people include effective communication, active listening, empathy, patience, respect, integrity, emotional intelligence, problem-solving, conflict management, adaptability, local-language ability, confidentiality, trust-building and ethical behaviour. A BC/BF should understand different customer needs, explain banking products in simple language, assist customers patiently, handle complaints professionally, avoid discrimination and protect customer

information. These skills help the BC/BF become a trusted link between the bank and customers and thereby improve customer satisfaction, financial literacy and financial inclusion.
Easy Memory Formula
LISTEN → UNDERSTAND → RESPECT → EXPLAIN → HELP → PROTECT → FOLLOW UP → BUILD TRUST
Most important principle
A BC/BF may complete a transaction in a few minutes, but a good relationship is built through repeated demonstrations of honesty, patience, respect and reliability.

Client Relationship and Maintaining Trust
In the context of **banking and BC/BF services**, a **client relationship** is the continuing professional relationship between a bank/BC/BF and a customer in which the customer receives financial services and the service provider understands, serves and protects the customer's legitimate interests.

1. What is a Client Relationship?
Simple definition
Client relationship is the ongoing professional relationship between a financial service provider and a customer, based on service, communication, mutual understanding, trust and fulfilment of responsibilities.
For a **BC/BF**, this relationship is particularly important because the BC/BF may be the customer's **first or most frequent point of contact with the bank**.
Relationship involves
Customer needs
↓
Communication
↓
Service
↓
Support
↓
Trust
↓
Long-term relationship

2. Client vs Customer
The terms are often used interchangeably, but there can be a slight distinction.
Customer
A person who purchases or uses a bank's product or service.
Client
A customer with an **ongoing professional relationship** with the service provider.
In banking, both terms may be used depending on the context.

3. Why is Client Relationship Important for a BC/BF?
A strong relationship helps the BC/BF:
- Understand customer needs.
- Provide better service.
- Encourage responsible use of banking products.

- Improve financial literacy.
- Build customer confidence.
- Increase adoption of formal banking.
- Resolve problems more effectively.
- Encourage long-term banking relationships.

For the bank, strong relationships can contribute to:

- Customer retention.
- Deposit mobilization.
- Responsible credit relationships.
- Increased use of banking services.
- Better customer satisfaction.
- Stronger reputation.

4. What is Trust in a Client Relationship?

Trust means the customer's confidence that the BC/BF and bank will act **honestly, fairly, competently, securely and consistently**.

A customer should feel:

"My money, information and interests are being handled responsibly."

5. Five Foundations of Trust

A useful way to remember trust is:

T-R-U-S-T

T – Transparency

R – Reliability

U – Understanding

S – Security

T – Truthfulness

6. Transparency

A BC/BF should be open about:

- Product features.
- Charges.
- Interest rates.
- Premiums.
- Loan repayment obligations.
- Important terms and conditions.
- Procedures.
- Limitations.

Example - Do not simply say:
"This loan is available."
Explain relevant:

- Interest
- Tenure
- Instalment
- Charges
- Repayment obligations
- Other applicable conditions

Principle
No hidden information.

7. Reliability
Trust develops when the BC/BF consistently does what they say they will do.
For example:
If the BC/BF says:
"I will check the status of your application."
they should actually check it through the appropriate channel and communicate the result.
Reliability means
Say what you can do → Do what you say → Do it consistently.

8. Understanding Customer Needs
The BC/BF should not treat every customer identically from a communication perspective.
Different customers have different needs.
For example:

- Farmer → agricultural finance
- Student → education/digital banking
- Senior citizen → deposits/pension/easy banking
- Small trader → business finance/digital collections
- First-time customer → basic financial education

Key principle
Understand first; recommend second.

9. Truthfulness
A BC/BF should provide **accurate information**.
They should never:

- Make false promises.
- Guarantee loan approval.
- Guarantee investment returns.
- Hide important conditions.
- Misrepresent insurance coverage.
- Claim that a bank product has benefits it does not have.

If the BC/BF does not know the answer:
"Let me verify this with the bank rather than give you incorrect information."
These builds trust rather than reducing it.

10. Protect Customer Confidentiality

Customers trust BC/BFs with sensitive information.

A BC/BF should protect:

- Identity information.
- Account information.
- Financial information.
- Documents.
- Transaction information.

Customer information should not be disclosed unnecessarily.

11. Protect Customer Credentials

A BC/BF should **never ask a customer to disclose confidential authentication credentials**, such as:

- OTP
- UPI PIN
- ATM/debit-card PIN
- Internet-banking password
- Other confidential authentication information

Golden rule

A genuine banking representative should not need the customer's confidential PIN or OTP to "help" them complete a transaction.

12. Give Proper Transaction Confirmation

Trust increases when customers can verify what happened.

Where applicable, the BC/BF should provide:

- Receipt
- Transaction reference
- Confirmation
- Appropriate acknowledgement

Example

For a cash withdrawal:

Customer → Transaction → Receipt/confirmation

The customer should be able to understand the transaction amount and status.

13. Never Misuse Customer Money

This is fundamental.

A BC/BF must:

- Handle cash accurately.
- Record transactions correctly.
- Reconcile cash.
- Avoid unauthorized deductions.
- Never use customer funds for personal purposes.

Trust principle

Customer money is never the BC/BF's money.

14. Charge Only Authorized Fees

If a service carries a permitted charge, the customer should be informed appropriately.

A BC/BF must not:

❌ Invent charges.

❌ Collect unauthorized fees.

❌ Hide charges.

❌ Deduct money without proper basis.

15. Avoid Mis-selling

A BC/BF should recommend or facilitate products based on **customer need and eligibility**, within their authorized role.

For example, do not tell a customer:

"You must buy this insurance to get the bank account."

unless there is a legitimate regulatory/product requirement and it is accurately explained.

Better approach

"This insurance provides the following protection and has these costs and conditions. You can decide after understanding it."

16. Handle Complaints Professionally

A complaint is a **test of trust**.

When a customer complaints:

Do

- Listen carefully.
- Stay calm.
- Show empathy.
- Check the facts.
- Explain the procedure.
- Escalate when necessary.
- Provide appropriate acknowledgement/reference.

Don't

- Argue.
- Blame the customer.
- Hide the problem.
- Make false promises.
- Say "It is not my problem."

17. Admit Mistakes

If a genuine mistake occurs, hiding it can cause much greater damage.

A professional approach is:

Recognize → Report → Correct → Explain → Prevent recurrence

Honest handling of mistakes can strengthen trust.

18. Respect Every Customer

Trust requires respectful treatment regardless of:

- Income
- Education
- Occupation
- Age
- Gender
- Social background
- Size of transaction

A customer making a small transaction should receive the same basic **dignity and courtesy** as a customer making a large transaction.

19. Use Simple Language

Customers cannot trust what they cannot understand.

The BC/BF should avoid unnecessary technical terminology.

Instead of:

"The transaction has been declined due to an authentication exception."

Say:

"The transaction could not be completed because the identity verification did not succeed. Let's follow the prescribed procedure."

20. Be Patient

A customer may ask the same question several times.

The BC/BF should not:

- Laugh at the customer.
- Show irritation.
- Rush them into a decision.
- Make them feel ashamed.

Especially important for:

- Senior citizens
- First-time customers
- Low-literacy customers
- Digitally inexperienced customers

21. Be Consistent

Trust is weakened when the BC/BF behaves differently from one day to another.

Consistency means:

- Same basic standards.
- Same honesty.
- Same transparency.
- Same respect.
- Same transaction procedures.

Formula

Consistency + Integrity = Credibility

22. Maintain Professional Boundaries

A good relationship does **not** mean becoming personally involved in a customer's finances.
BC/BFs should maintain appropriate professional boundaries.
They should not:

- Borrow money from customers.
- Lend personal money to customers in connection with banking activities.
- Use customers for personal benefit.
- Become unnecessarily involved in private financial affairs.
- Pressure customers because of personal relationships.

23. Protect Against Fraud

The BC/BF should educate customers about:

- OTP fraud
- UPI fraud
- QR scams
- Fake customer-care calls
- Phishing
- Fake loan offers
- Fake payment screenshots

Helping customers avoid fraud demonstrates that the BC/BF values their **financial safety**, not merely transactions.

24. Follow Rules and Bank Procedures

Trust is not only about being friendly.
A BC/BF must follow:

- Bank instructions.
- KYC requirements.
- AML requirements.
- Customer-protection requirements.
- Cash-handling procedures.
- Transaction limits.
- Data-security procedures.
- Applicable regulatory requirements.

Important
Good intentions cannot justify violating banking procedures.

25. Provide Appropriate Follow-Up

A relationship is not finished when the transaction ends.
Where appropriate, the BC/BF can help customers understand:

- Transaction status.
- Application status.
- Repayment/contribution requirements.
- How to raise complaints.
- Where to obtain further assistance.

This creates a sense of continuity.

26. Trust-Building Process

UNDERSTAND CUSTOMER
↓
COMMUNICATE CLEARLY
↓
BE TRANSPARENT
↓
ACT HONESTLY
↓
PROTECT INFORMATION
↓
PROVIDE ACCURATE SERVICE
↓
KEEP PROMISES
↓
HANDLE COMPLAINTS FAIRLY
↓
TRUST
↓
LONG-TERM RELATIONSHIP

27. What Destroys Client Trust?

A BC/BF should particularly avoid:

Behaviour	**Effect**
Misleading information	Loss of confidence
Hidden charges	Customer dissatisfaction
Unauthorized fees	Serious trust failure
Mis-selling	Customer exploitation
Poor complaint handling	Relationship breakdown
Breach of confidentiality	Loss of privacy and trust
Misuse of customer funds	Serious misconduct
Requesting PIN/OTP	Security risk
False promises	Loss of credibility
Discrimination	Loss of customer confidence
Repeated errors	Reduced reliability
Ignoring customers	Poor relationship

28. Customer Relationship Management — BC/BF Checklist

Before the transaction

☑ Understand customer requirement
☑ Verify identity as required
☑ Explain relevant procedure
☑ Explain applicable charges/conditions

During the transaction

☑ Maintain accuracy
☑ Protect confidentiality
☑ Follow authorized procedure
☑ Never request confidential credentials
☑ Handle cash carefully

After the transaction

☑ Provide receipt/confirmation
☑ Explain transaction status
☑ Address questions
☑ Explain complaint mechanism if necessary
☑ Follow up on unresolved matters

29. Golden Rules for Maintaining Trust

1. Tell the truth.
2. Keep customer information confidential.
3. Never misuse customer money.
4. Never ask for OTP/PIN/UPI PIN/password.
5. Disclose applicable charges and important conditions.
6. Never mis-sell a product.
7. Treat every customer with dignity.
8. Admit and correct genuine mistakes.
9. Keep promises and follow up.
10. Put customer interests and safety above personal gain.

30. Exam-Ready Answer

Client relationship is the continuing professional relationship between a bank/BC/BF and a customer based on mutual trust, communication, service and fulfilment of responsibilities. A BC/BF can maintain trust by understanding customer needs, communicating clearly, providing accurate information, being transparent about charges and conditions, protecting customer confidentiality, safeguarding customer funds and credentials, avoiding mis-selling and unauthorized charges, treating all customers fairly, handling complaints patiently, following bank and regulatory procedures, and providing proper transaction confirmation and follow-up. Integrity, reliability, transparency, confidentiality and customer-oriented service are the foundation of a strong client relationship.

One-line formula

Trust = Honesty + Transparency + Competence + Confidentiality + Reliability + Fair Treatment

And for a BC/BF:

"Serve the customer as a trusted representative of the bank—not merely as a person processing transactions."
Difference Between a Prospect, Customer and Client
In banking, **prospect, customer and client** describe different stages or types of relationships between a person and a bank/BC/BF.
Easy way to remember
Prospect = Potential customer
Customer = Has used/purchased a service
Client = Has an ongoing relationship with the service provider

1. Prospect
A **prospect** is a person or organization that **could potentially become a customer**, but has not yet established a banking relationship or purchased the relevant service.
Example
A BC/BF meets a farmer who:

- Does not have a savings account with the bank.
- Is interested in opening one.
- Is asking about a Kisan Credit Card.

That farmer is a **prospect** for the bank.
BC/BF's role with a prospect

- Identify needs.
- Create awareness.
- Explain relevant products.
- Explain eligibility and conditions.
- Answer questions.
- Facilitate the application process if the person chooses to proceed.

Key word
Potential

2. Customer
A **customer** is a person or organization that **uses or has acquired a product or service from the bank**.
Example
The farmer opens a savings account.
He is now a **customer of the bank**.
A person who uses the banks:

- Savings account
- Deposit
- Loan
- Debit card
- Credit card
- UPI service
- Remittance service

can be a customer.

BC/BF's role with a customer

- Provide authorized services.
- Process/facilitate transactions.
- Explain products.
- Provide financial education.
- Assist with service requests.
- Protect customer information.
- Help with grievance procedures.

3. Client

A **client** generally refers to a customer with an **ongoing professional relationship** with a service provider.
The term is especially common where the relationship involves continuing services, advice or a broader professional relationship.

Example

Suppose the farmer:

- Maintains a savings account.
- Has a KCC.
- Uses remittance services.
- Uses insurance/pension-related services.
- Regularly interacts with the bank/BC.

The farmer may be described as an **ongoing client/customer relationship**, depending on the context.

Key word

Relationship

4. Main Difference

Particular	**Prospect**	**Customer**	**Client**
Meaning	Potential customer	Person using/acquiring a bank service	Person with an ongoing professional relationship
Banking relationship	Not yet established for the relevant service	Established	Usually continuing/deeper
Has purchased/used service?	Not yet	Yes	Yes
Main stage	Before acquisition	After acquisition	Ongoing relationship
BC/BF focus	Attract & educate	Serve & support	Maintain & strengthen relationship
Key word	**Potential**	**Transaction/Service**	**Relationship**

5. Prospect → Customer → Client

The relationship can be understood as:

PROSPECT
|
| Awareness
↓
INTEREST
|
| Application / Acquisition
↓
CUSTOMER
|
| Good service
| Trust
| Regular interaction
↓
CLIENT
|
↓
LONG-TERM RELATIONSHIP

Note: In everyday banking, **customer** and **client** are often used interchangeably. The distinction above is mainly useful for understanding relationship stages and customer-service concepts.

6. Example for a BC/BF

Stage 1 — Prospect

A BC meets **Ravi**, who does not have an account with the bank.

Ravi says:

"I want a safe place to keep my savings."

The BC explains the appropriate account options.

Ravi = Prospect

Stage 2 — Customer

Ravi decides to open an account and begins using it.

Ravi = Customer

The BC now helps him with:

- Account operation
- Deposits
- Withdrawals
- Digital banking
- Financial literacy

Stage 3 — Ongoing Client Relationship
Over time, Ravi:

- Maintains his account.
- Uses digital payments.
- Takes an eligible loan.
- Uses insurance/pension products where appropriate.
- Regularly seeks banking assistance.

The bank/BC develops an **ongoing professional relationship** with Ravi.
Ravi = Client in the broader relationship-management sense.

7. How a BC/BF Should Treat Each
Prospect
Objective:
Build interest and awareness
The BC/BF should:

- Listen.
- Identify needs.
- Educate.
- Explain suitable products.
- Never make false promises.

Customer
Objective:
Provide excellent service
The BC/BF should:

- Process authorized transactions accurately.
- Explain products and charges.
- Provide receipts/confirmation.
- Protect information.
- Handle complaints properly.

Client
Objective:
Build long-term trust
The BC/BF should:

- Maintain regular communication.
- Understand changing financial needs.
- Provide appropriate financial education.
- Maintain confidentiality.
- Provide reliable service.
- Encourage responsible use of banking products.
- Never exploit the relationship.

8. Prospect vs Customer — Most Important Difference
Prospect
"Could become my customer."
Customer
"Is already using my service."

9. Customer vs Client — Most Important Difference
Customer
Focus is often on the **specific product/service transaction**.
Client
Focus is more on the **continuing professional relationship**.
For example:
A person buying a bank-issued service is a **customer**; a person maintaining a continuing relationship involving multiple banking services may also be referred to as a **client**, depending on the context.

10. Why This Distinction Matters for BC/BF
A BC/BF should not think only in terms of **"getting transactions."**
The progression should be:
Prospect → Customer → Satisfied Customer → Trusted Long-Term Relationship
The BC/BF's objective should be to create **sustainable relationships through ethical service**, not merely to maximize product sales.

Exam-Ready Answer
A prospect is a potential customer who has not yet established a relevant banking relationship or acquired the service being considered. A customer is a person or organization that has acquired or uses a bank's products or services. A client generally refers to a customer with an ongoing professional relationship with the bank or service provider. Thus, prospect represents potential, customer represents an established service relationship, and client emphasizes an ongoing professional relationship. For a BC/BF, the objective should be to convert prospects into customers through appropriate education and then build long-term relationships through reliable, transparent and ethical service.
Golden formula
PROSPECT = POTENTIAL
CUSTOMER = USER
CLIENT = ONGOING RELATIONSHIP

How a BC/BF Should Deal with a Customer Complaint?
A **Business Correspondent (BC)** or **Business Facilitator (BF)** is often the first person a customer approaches when there is a problem with a banking service. Therefore, the way a BC/BF handles a complaint can determine whether the customer **loses trust or develops greater confidence in the bank**.
Golden rule: Listen → Understand → Verify → Explain → Resolve/Escalate → Follow up

1. What is a Complaint?
A **customer complaint** is an expression of dissatisfaction by a customer regarding a bank's product, service, transaction, employee, BC/BF or related banking process, where the customer expects an explanation, correction or resolution.

Examples

A customer may complain that:

- Cash was not received after an account was debited.
- A cash deposit has not been credited.
- A transaction failed.
- A UPI payment is pending/failed.
- A card is not working.
- An unauthorized transaction occurred.
- An incorrect charge was applied.
- A loan application has not progressed.
- The BC charged an unauthorized fee.
- A transaction receipt was not provided.
- The customer cannot access a banking service.

2. First Rule — Stay Calm

When a customer is angry, the BC/BF should **not react emotionally**.

Do:

- Remain calm.
- Speak politely.
- Allow the customer to explain.
- Show concern.

Don't:

- Argue.
- Shout back.
- Blame the customer.
- Insult the customer.
- Walk away without explanation.

Good response

"I understand your concern. Let me check the transaction details and see what the appropriate next step is."

3. Listen Carefully

Allow the customer to explain the entire problem.

The BC/BF should identify:

- What happened?
- When did it happen?
- What transaction/service was involved?
- What amount was involved?
- What does the customer expect?
- Has the customer already complained elsewhere?

Important

Do not assume the cause of the complaint before checking the facts.

4. Show Empathy
The BC/BF should acknowledge the customer's difficulty.
For example:
"I understand that this is inconvenient, especially since the amount has already been debited."
Empathy does **not** mean admitting that the bank is at fault before the facts are verified.

5. Verify the Facts
After listening, check the relevant information available through the authorized system/process.
Depending on the complaint, this may involve checking:

- Transaction reference.
- Date and time.
- Amount.
- Account/transaction status.
- Receipt.
- Device record.
- Whether the transaction was successful, failed or pending.
- Whether the issue requires bank-level intervention.

Never guess.
If the status is unclear:
"I need to verify this with the bank/system before giving you a definite answer."

6. Protect Customer Confidentiality
While investigating the complaint:

- Do not expose customer information unnecessarily.
- Do not discuss account details publicly.
- Do not ask for confidential authentication credentials.
- Never ask for the customer's **OTP, UPI PIN, ATM PIN or password**.

Important
A complaint investigation should never become an opportunity to collect confidential credentials.

7. Explain the Problem in Simple Language
Once the facts are known, explain what happened.
Avoid unnecessary technical terms.
Example
Instead of:
"The transaction encountered a host-side communication exception."
Say:
"The transaction did not receive successful confirmation from the bank's system. We need to follow the prescribed process to check its status."

8. Resolve the Complaint if It Is Within Your Authority
A BC/BF should resolve a complaint **only within the authority given by the bank**.
For example, they may be able to:

- Check transaction status.
- Reconcile a transaction.
- Correct an operational mistake where authorized.
- Provide a receipt/reference.
- Guide the customer through the appropriate process.

9. Escalate When Necessary
A BC/BF should **not try to solve every complaint personally**.
Escalate matters when they require:

- Bank-level approval.
- Account-level investigation.
- Transaction reversal.
- Dispute resolution.
- Fraud investigation.
- Technical intervention.
- Complaint handling by the bank's grievance cell.
- Any action outside the BC/BF's authority.

Important principle
Know your limits and escalate promptly.

10. Never Make False Promises
A BC/BF should not say:
"Your money will definitely come back today."
unless they have authority and confirmed information to make that statement.
Instead: "I will register/escalate the issue through the prescribed process and provide you with the appropriate reference/status."

11. Give an Acknowledgement or Reference
Where the bank's process provides for complaint registration, the customer should be given the appropriate:

- Complaint/reference number.
- Transaction reference.
- Acknowledgement.
- Other proof of submission.

This helps the customer track the issue.

12. Explain the Next Step
The customer should know:

- What has been done.
- What remains to be done.
- Who will handle the next stage.
- How they can obtain the status.
- When/where to follow up, according to the applicable process.

Never leave the customer thinking:
"I don't know what happens next."

13. Follow Up on Unresolved Complaints
If the matter has been escalated, the BC/BF should, **where their role/process permits**, help the customer understand the status.
For example:
"Your complaint has been forwarded through the prescribed channel. This is the reference number you should keep for future follow-up."

14. Special Handling of Fraud Complaints
Fraud complaints should be treated with **urgency**.
If a customer reports:

- Unauthorized withdrawal
- Unauthorized UPI transaction
- Card fraud
- Account compromise
- Suspicious transaction

the BC/BF should:

1. Stay calm.
2. Record the basic facts.
3. Follow the bank's prescribed reporting/escalation procedure immediately.
4. Advise the customer to use the bank's authorized fraud-reporting/blocking channel where applicable.
5. Never investigate beyond their authority.
6. Never ask for OTP/PIN/password.

Key principle
Fraud complaints require prompt escalation, not informal investigation by the BC/BF.

15. Handling Transaction-Failure Complaints
Suppose:
Customer's account was debited, but cash was not received from a Micro-ATM.
BC/BF should:
1. Listen
Understand exactly what happened.
2. Verify
Check the transaction status through the authorized system.
3. Do not immediately repeat the transaction
A duplicate transaction could create further complications.
4. Follow the bank's prescribed failed-transaction/reversal process.
5. Give the customer the relevant transaction/reference information.
6. Escalate if required.

16. Handling an Angry Customer

Use the **L-E-A-R-N** approach:

L — Listen
Let the customer speak.

E — Empathize
Acknowledge their difficulty.

A — Assess
Understand and verify the facts.

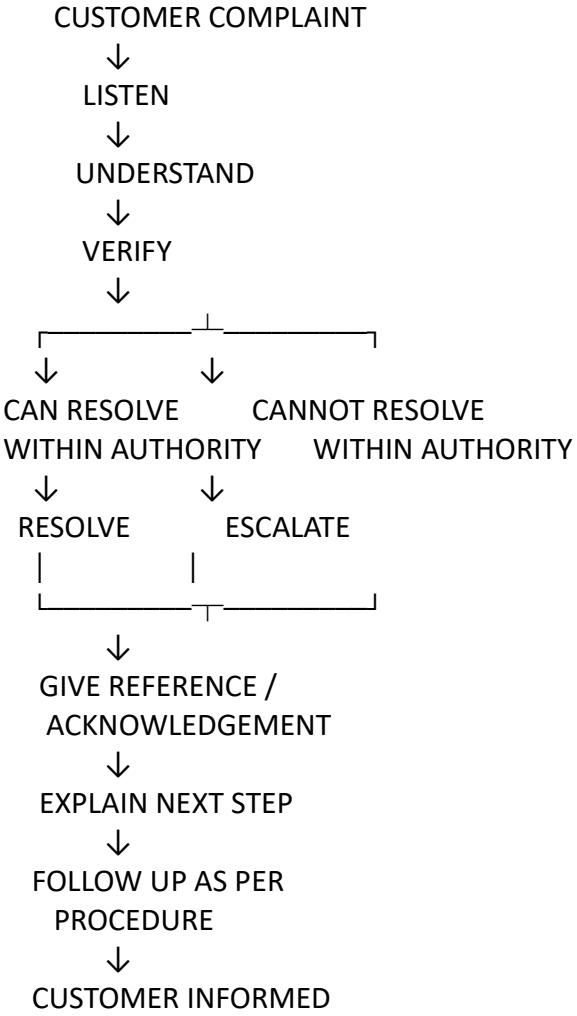
R — Resolve/Refer
Resolve if authorized or refer to the appropriate channel.

N — Notify
Explain the next step/status.

17. What a BC/BF Must NOT Do

Don't	Why?
Argue with the customer	Escalates conflict
Blame the customer without verification	Unprofessional/unfair
Hide a mistake	Destroys trust
Make false promises	Creates further complaints
Ignore the complaint	Customer loses confidence
Ask for OTP/PIN/UPI PIN	Serious security risk
Charge money to "solve" a complaint without authority	Unauthorized practice
Attempt unauthorized reversal	Operational/security risk
Discuss customer details publicly	Confidentiality risk
Delay escalation of fraud	Can increase customer loss
Threaten the customer	Unacceptable conduct

18. Complaint Handling Process



19. Example — Cash Withdrawal Complaint

Customer:

"₹5,000 has been debited from my account but the BC did not give me the cash."

Poor response

"The machine must be wrong. Come tomorrow."

Proper response

Step 1: Listen calmly.

Step 2: Verify transaction details.

Step 3: Check whether the transaction shows successful, failed or pending.

Step 4: Do not conduct another withdrawal merely to compensate for the first transaction.

Step 5: Follow the bank's prescribed reversal/dispute process.

Step 6: Provide the appropriate reference/acknowledgement.

Step 7: Explain how the customer can obtain the status.

Step 8: Escalate if the matter is outside the BC's authority.

20. Example — Unauthorized UPI Transaction

Customer:

"Someone made a UPI transaction from my account."

The BC/BF should **not attempt to investigate the suspected fraud independently**.

Instead:

Listen → Record basic facts → Follow the bank's prescribed fraud-reporting procedure → Escalate immediately → Guide customer to authorized channels

And remind the customer:

Never share UPI PIN, OTP or password with anyone.

21. Complaint vs Query

These are different.

Query

Customer asks:

"What is the interest rate on this deposit?"

This is an **information request**.

Complaint

Customer says:

"The interest credited to my account is incorrect."

This is a **complaint requiring investigation/response**.

22. Importance of Proper Complaint Handling

Good complaint handling helps:

Customer

- Get a fair response.
- Understand what happened.
- Obtain appropriate resolution.
- Maintain confidence in banking.

Bank

- Identify service failures.
- Reduce repeated complaints.
- Improve processes.
- Protect reputation.
- Strengthen customer relationships.

BC/BF

- Build trust.
- Demonstrate professionalism.
- Maintain the bank's reputation at the last mile.

23. Complaint Handling and Trust

GOOD COMPLAINT HANDLING
↓
Customer feels heard
↓
Clear explanation
↓
Proper resolution
↓
Transparency
↓
TRUST
↓
Strong relationship

24. Golden Principles for BC/BF

1. Listen before responding.
2. Never argue.
3. Verify before giving an answer.
4. Never ask for confidential credentials.
5. Resolve only within your authority.
6. Escalate promptly when required.
7. Give appropriate acknowledgement/reference.
8. Never make false promises.
9. Keep customer information confidential.
10. Follow up according to the prescribed process.

25. Exam-Ready Answer

A BC/BF should handle a customer complaint calmly, patiently and professionally. The BC/BF should first listen carefully, understand the customer's problem, show empathy and verify the relevant transaction or service details. If the matter is within the BC/BF's authorized powers, it should be resolved according to bank procedures. If it is beyond their authority, such as a fraud investigation, reversal or bank-level dispute, it should be promptly escalated through the prescribed grievance mechanism. The customer should receive appropriate acknowledgement or reference details and be informed about the next step. The BC/BF must maintain confidentiality, never ask for OTP, PIN, UPI PIN or password, avoid false promises and never charge unauthorized fees. Proper complaint handling builds customer trust and strengthens the bank-customer relationship.

Easy formula to remember:

LISTEN → EMPATHISE → VERIFY → RESOLVE/ESCALATE → ACKNOWLEDGE → EXPLAIN → FOLLOW UP

The key objective is not merely to "close" the complaint, but to ensure that the customer receives a fair, transparent and properly authorized response.

Do's and Don'ts for Handling Customer Complaints — BC/BF

A **Business Correspondent (BC)/Business Facilitator (BF)** is often the first point of contact when a customer has a banking problem. Proper complaint handling protects the customer, preserves the **bank's reputation**, and builds trust.

Golden principle: Listen → Understand → Verify → Resolve/Escalate → Communicate → Follow up

1. DO's — What a BC/BF Should Do

1. Listen Carefully

- Allow the customer to explain the entire problem.
- Do not interrupt unnecessarily.
- Listen for the actual issue rather than assuming the cause.
- Ask relevant questions to understand the complaint.

Example:

Instead of immediately saying *"It is a network problem,"* first check what actually happened.

2. Stay Calm and Polite

Even if the customer is angry:

- Remain calm.
- Speak respectfully.
- Avoid raising your voice.
- Do not react emotionally.

Good response:

"I understand your concern. Let me check the transaction details and guide you through the next step."

3. Show Empathy

Acknowledge the customer's difficulty.

For example:

"I understand that this situation is inconvenient. Let me check what happened."

Empathy does **not** mean accepting blame before the facts are established.

4. Verify the Facts

Check the available authorized records/system for:

- Transaction date and time.
- Amount.
- Transaction/reference number.
- Transaction status.
- Receipt.
- Account/service details, as appropriate.
- Device/system status.

Rule:

Verify first; explain second.

Never guess.

5. Protect Customer Confidentiality
While handling a complaint:
- Keep account information private.
- Protect identity documents.
- Avoid discussing financial details in public.
- Share information only through authorized channels.

6. Never Ask for Confidential Credentials
A BC/BF should **not ask customers for**:
- OTP
- UPI PIN
- ATM/debit-card PIN
- Internet-banking password
- Other confidential authentication credentials

Remember:
Customer assistance must never become a reason to collect confidential credentials.

7. Resolve Within Your Authority
If the complaint can be resolved within the BC/BF's authorized functions, follow the bank's prescribed procedure.
Examples may include:
- Checking transaction status.
- Providing transaction information.
- Providing an appropriate receipt/reference.
- Correcting an authorized operational issue.

8. Escalate When Necessary
Escalate complaints that require bank-level intervention, such as:
- Fraud investigation.
- Transaction reversal/dispute.
- Account-level issues.
- Technical problems beyond the BC/BF's authority.
- Matters requiring bank approval.
- Complaints that cannot be resolved at the BC/BF level.

Know your authority—and know when to escalate.

9. Give Appropriate Acknowledgement/Reference
Where the applicable process provides for complaint registration, ensure the customer receives the relevant:
- Complaint number.
- Transaction reference.
- Acknowledgement.
- Other tracking details.

This gives the customer confidence that the matter has been formally taken up.

10. Explain the Next Step
Tell the customer:
- What has been done.
- What remains to be done.
- Who will handle the next stage.
- How the customer can follow up.
- What reference number to retain.

Never leave the customer confused about what happens next.

11. Give Accurate Information
Use simple language and explain:
- What happened.
- What can be done.
- What cannot be done.
- What procedure applies.

If you do not know the answer:
"I will verify this with the bank rather than give you incorrect information."

12. Follow Up
For an unresolved matter, follow up according to the **bank's prescribed process and your authorized role**.
Good follow-up demonstrates reliability.

13. Handle Fraud Complaints Promptly
If the customer reports an unauthorized transaction:
- Take the complaint seriously.
- Follow the bank's prescribed fraud-reporting procedure.
- Escalate promptly.
- Guide the customer to the appropriate authorized channel.
- Do not conduct an unauthorized investigation yourself.

14. Maintain Records
Maintain complaint-related records as required by the bank.
Records may include:
- Date of complaint.
- Customer/service details as permitted.
- Nature of complaint.
- Transaction/reference number.
- Action taken.
- Escalation details.
- Status/resolution.

15. Learn from Repeated Complaints
If many customers complain about the same issue, inform the appropriate bank authority.
Repeated complaints may indicate:

- System problems.
- Device problems.
- Training gaps.
- Process failures.
- Customer-communication problems.

2. DON'Ts — What a BC/BF Should Avoid
❌ **1. Don't Argue with the Customer**
Never respond aggressively.
Wrong:
"It is not my fault. Go to the bank."
Better:
"Let me check the issue and explain the appropriate process."

❌ **2. Don't Blame the Customer Without Evidence**
Avoid statements such as:
"You must have entered something incorrectly."
Verify the facts first.

❌ **3. Don't Ignore the Complaint**
Never:

- Walk away.
- Refuse to listen.
- Tell the customer to come back repeatedly without reason.
- Pretend the problem does not exist.

If you cannot resolve it, **escalate it**.

❌ **4. Don't Make False Promises**
Never say:
"Your money will definitely be refunded today."
unless you have confirmed information and authority to make that statement.
Instead:
"The matter will be handled through the prescribed process, and this is the reference you should retain."

❌ **5. Don't Hide Mistakes**
If an operational mistake has occurred:
Recognise → Report → Correct → Prevent recurrence
Hiding a mistake can turn a small problem into a serious complaint.

❌ 6. Don't Ask for OTP/PIN/Password

Never request:

- OTP
- UPI PIN
- ATM PIN
- Password
- CVV or other confidential credentials

for the purpose of "checking" or "resolving" a complaint.

❌ 7. Don't Attempt Unauthorized Reversals

A BC/BF should not independently reverse, alter or manipulate transactions outside their authority. Follow the bank's prescribed procedure.

❌ 8. Don't Collect Unauthorized Fees

Never demand money from a customer simply for:

- Registering a complaint.
- "Speeding up" resolution.
- Checking a transaction.
- Reversing a transaction.

Only authorized charges may be collected according to applicable rules and bank procedures.

❌ 9. Don't Discuss Customer Details Publicly

Avoid discussing:

- Account balance.
- Loan details.
- Personal information.
- Transaction information.

where other people can hear or see it.

❌ 10. Don't Mislead the Customer

Never:

- Hide relevant information.
- Give incorrect product information.
- Misrepresent bank procedures.
- Promise benefits that do not exist.

❌ 11. Don't Retaliate Against a Complaining Customer

A customer has the right to raise a legitimate complaint.
Never:

- Threaten the customer.
- Humiliate the customer.
- Refuse unrelated legitimate services as punishment.
- Treat the customer badly because they complained.

❌ 12. Don't Discriminate

Do not treat customers differently based on:

- Income
- Age
- Gender
- Occupation
- Education
- Social background
- Size of transaction

3. Do's and Don'ts — Quick Table

DO ✅	DON'T ❌
Listen carefully	Don't interrupt unnecessarily
Stay calm	Don't argue
Show empathy	Don't insult/blame
Verify facts	Don't guess
Give accurate information	Don't mislead
Protect confidentiality	Don't disclose customer details
Follow bank procedures	Don't bypass procedures
Resolve within authority	Don't take unauthorized action
Escalate when required	Don't ignore unresolved complaints
Give appropriate reference	Don't leave customer without guidance
Follow up	Don't make false promises
Maintain records	Don't conceal mistakes
Handle fraud promptly	Don't investigate beyond authority
Protect customer credentials	Don't ask for OTP/PIN/password
Collect only authorized charges	Don't demand unauthorized fees

4. Special Case: Customer Says "Money Debited but Cash Not Received"

DO:

1. Listen.
2. Verify transaction status.
3. Check the transaction/reference details.
4. Do **not** blindly repeat the transaction.
5. Follow the prescribed reversal/dispute process.
6. Provide appropriate acknowledgement/reference.
7. Escalate if required.
8. Explain the next step.

DON'T:

- Say "Come tomorrow" without checking.
- Give cash from your personal money as an unofficial settlement.

- Repeat the transaction without checking status.
- Promise an immediate refund without confirmation.
- Ask for the customer's UPI PIN/OTP.

5. Special Case: Unauthorized Transaction/Fraud
DO:
Listen → Record basic facts → Escalate promptly → Guide customer to authorized reporting/blocking channels → Follow prescribed procedure
DON'T:

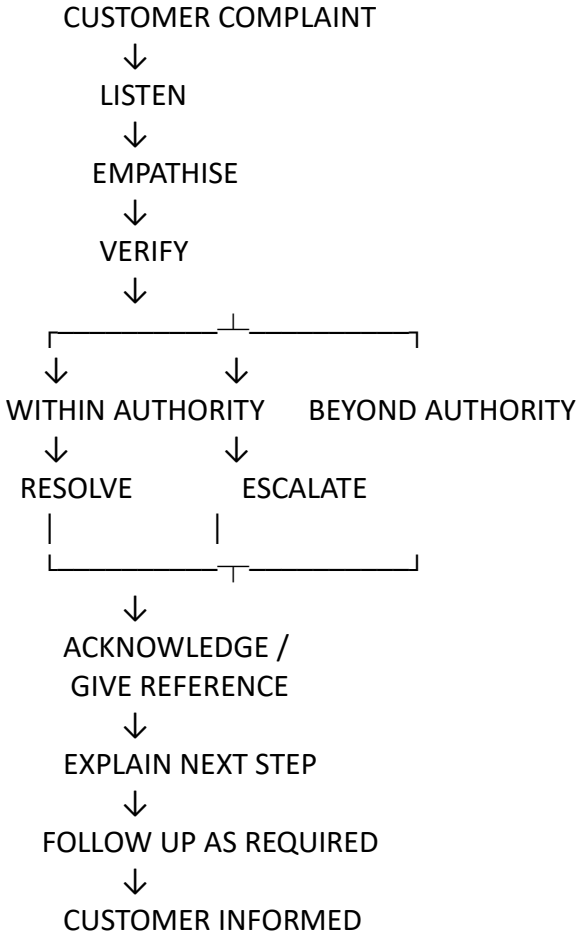
- Delay reporting.
- Conduct an unauthorized investigation.
- Ask for OTP/PIN/password.
- Delete transaction evidence.
- Promise a guaranteed refund.

6. Handling an Angry Customer
Use the **L-E-A-R-N** approach:
L — Listen
Let the customer explain.
E — Empathize
Acknowledge the difficulty.
A — Assess
Check the facts.
R — Resolve or Refer
Resolve if authorized; otherwise escalate.
N — Notify
Explain the next step and appropriate reference/status.

7. Seven Golden Rules
For an examination, remember:

1. **LISTEN** — Hear the customer fully.
2. **RESPECT** — Remain polite and patient.
3. **VERIFY** — Check facts before responding.
4. **PROTECT** — Maintain confidentiality and security.
5. **RESOLVE** — Act within your authority.
6. **ESCALATE** — Refer matters beyond your authority.
7. **FOLLOW UP** — Ensure the customer knows the next step.

8. Complaint Handling Flow



9. Exam-Ready Answer

While handling customer complaints, a BC/BF should listen carefully, remain calm and polite, understand the customer's problem, show empathy, verify the facts and provide accurate information. Complaints should be resolved within the BC/BF's authorized powers, while matters requiring bank-level intervention should be promptly escalated through the prescribed grievance mechanism. The BC/BF should provide appropriate acknowledgement or reference details, explain the next step, maintain confidentiality, protect customer credentials and follow up on unresolved matters. A BC/BF should not argue, blame the customer without verification, ignore complaints, make false promises, hide mistakes, collect unauthorized charges, disclose customer information or ask for OTPs, PINs, UPI PINs or passwords. Proper complaint handling is essential for customer protection, trust and the reputation of the bank.

Golden formula

DO: Listen → Empathise → Verify → Resolve/Escalate → Acknowledge → Explain → Follow up

DON'T: Argue → Blame → Ignore → Mislead → Hide → Overstep Authority → Ask for Confidential Credentials

Duties and Responsibilities of a Bank with Regard to BC / BF / DRA

In the Indian banking context, a bank that engages **Business Correspondents (BCs), Business Facilitators (BFs), or Direct Recovery Agents (DRAs)** remains responsible for ensuring that these outsourced/agent activities are conducted **lawfully, safely, transparently and in accordance with RBI and applicable regulatory requirements**.

Important distinction:

BC/BF primarily support financial inclusion, customer service, sourcing/facilitation and permitted banking activities.

DRA (Direct Recovery Agent) is engaged for **recovery of bank dues**, subject to the bank's policies and applicable RBI instructions.

1. Bank's Overall Responsibility

The bank cannot simply appoint a BC/BF/DRA and transfer all responsibility to the agent.

The bank must:

- Select suitable agents.
- Conduct due diligence.
- Enter into appropriate agreements.
- Train them.
- Define their authority.
- Monitor their activities.
- Protect customer information.
- Ensure customer protection.
- Have grievance-redressal arrangements.
- Take corrective action for misconduct.

Golden principle

Outsourcing the activity does not mean outsourcing the bank's responsibility.

PART A — BANK'S RESPONSIBILITIES REGARDING BC/BF

2. Proper Selection and Due Diligence

Before appointing a BC/BF, the bank should conduct appropriate due diligence.

This may include verification of:

- Identity
- Address
- Reputation
- Background
- Financial standing where relevant
- Business credentials
- Capability
- Other suitability requirements

The objective is to ensure that the person/entity is **fit to represent the bank**.

3. Enter Into a Written Agreement

The bank should have a formal agreement with the BC/BF.

The agreement should clearly specify:

- Scope of activities.
- Powers and limitations.

- Responsibilities.
- Customer-service standards.
- Confidentiality obligations.
- Record-keeping requirements.
- Cash-handling arrangements, where applicable.
- Compensation.
- Monitoring.
- Termination conditions.
- Liability/accountability.

This prevents ambiguity regarding what the BC/BF is authorized to do.

4. Clearly Define the BC/BF's Authority

The bank must clearly communicate:

What the BC/BF CAN do

and

What the BC/BF CANNOT do.

For example, the BC/BF should not:

- Approve loans beyond delegated authority.
- Change bank records without authorization.
- Collect unauthorized charges.
- Promise guaranteed loan approval.
- Perform transactions outside the approved scope.

5. Provide Adequate Training

The bank should provide appropriate training to BC/BFs.

Training may cover:

Banking

- Deposit products
- Credit products
- Interest
- Account operations

KYC/AML

- Customer identification
- KYC requirements
- Suspicious transactions
- AML precautions

Technology

- Micro-ATM
- POS
- Biometric devices
- AePS
- Digital banking

Customer service

- Communication
- Financial literacy

- Complaint handling
- Customer protection

Security

- Fraud prevention
- Cybersecurity
- Data confidentiality

6. Provide Necessary Infrastructure and Technology

Where applicable, the bank should ensure that BCs have appropriate:

- Devices
- Connectivity arrangements
- Banking applications
- Authentication mechanisms
- Transaction-processing facilities
- Receipt-generation facilities
- Security controls

The technology should be appropriate for the services the BC is authorized to provide.

7. Monitor BC/BF Activities

The bank must establish mechanisms to monitor BC/BF operations.

Monitoring can cover:

- Transactions
- Cash handling
- Customer complaints
- Service quality
- Fees/charges
- KYC compliance
- Suspicious activity
- Device usage
- Customer protection
- Financial-literacy activities

Why?

Because an agent's misconduct can damage both:

Customer + Bank

8. Ensure Proper Cash Management

Where a BC is authorized to handle cash, the bank should establish proper controls relating to:

- Cash limits
- Cash availability
- Daily reconciliation
- Transaction records
- Cash-in-hand
- Settlement
- Shortages/excesses
- Surprise checks where appropriate

Basic reconciliation
Opening cash + cash received − cash paid = closing cash
Any discrepancy should be investigated and handled according to the bank's procedures.

9. Ensure Proper Transaction Records
The bank should maintain appropriate systems for recording transactions undertaken through BCs.
Customers should receive appropriate:

- Receipts
- Transaction references
- Confirmations

This improves transparency and auditability.

10. Customer Protection
The bank must ensure that BCs treat customers fairly.
The bank should prevent:

- Mis-selling
- Misrepresentation
- Unauthorized charges
- Coercion
- Discrimination
- Misuse of customer funds
- Improper handling of customer information

11. Protect Customer Data
The bank should establish controls to protect customer information handled by BCs.
BCs should be required to maintain confidentiality of:

- Account information
- KYC documents
- Transaction information
- Personal information
- Financial information

12. Grievance Redressal
The bank must have an effective mechanism for customers to complain about BC-related services.
Customers should know:

- Where to complain.
- How to complain.
- How to obtain acknowledgement/reference.
- How the complaint will be escalated.

Important
A customer should not be told:
"The BC is a separate person, so the bank cannot help you."
The bank must have appropriate responsibility and oversight for services provided through its BC channel.

13. BC/BF Compensation

The bank should have a transparent compensation arrangement with BCs/BFs.
Where applicable, the bank should ensure that customer charges are **not arbitrarily imposed by the BC**.
A BC/BF should not use customer ignorance to collect unauthorized fees.

14. Financial Literacy and Inclusion

Banks should support BCs in promoting:

- Savings
- Responsible borrowing
- Insurance
- Pension
- Digital payments
- Fraud awareness
- Government financial-inclusion schemes

BCs can therefore serve as an important **last-mile financial-literacy channel**.

15. Audit and Inspection

Banks should have appropriate mechanisms for:

- Inspection
- Audit
- Monitoring
- Transaction review
- Compliance review

The purpose is to identify:

- Fraud
- Misconduct
- Process violations
- Cash discrepancies
- Customer complaints
- KYC deficiencies
- Technology/security problems

16. Business Continuity

Banks should have arrangements to ensure that customers continue to have access to essential services even if:

- A BC becomes unavailable.
- A BC agreement is terminated.
- A device fails.
- Connectivity fails.
- The BC faces operational problems.

Customers should not be left without reasonable access to the banking system merely because a particular BC is unavailable.

17. Action Against Misconduct

If a BC/BF violates the bank's rules, the bank should take appropriate action.
Depending on the seriousness, this can include:

- Warning
- Corrective training
- Increased monitoring
- Suspension
- Termination
- Recovery of losses
- Reporting to appropriate authorities where required

Serious fraud or misconduct must be dealt with appropriately.

PART B — BANK'S RESPONSIBILITIES REGARDING DRA

18. What is a DRA?

DRA = Direct Recovery Agent.

A DRA is engaged by a bank/financial institution for activities relating to the **recovery of dues**, subject to applicable law, RBI instructions and the bank's policies.
The DRA's role is fundamentally different from that of a BC/BF.

BC/BF

Financial inclusion + banking service delivery

DRA

Recovery of outstanding dues

19. Selection of DRA

The bank should select recovery agents carefully and conduct appropriate due diligence.
The bank should consider:

- Background
- Reputation
- Integrity
- Suitability
- Capability
- Previous conduct
- Training requirements

20. Written Agreement with DRA - The bank should have a formal agreement specifying:

- Scope of recovery activity.
- Permitted conduct.
- Responsibilities.
- Customer-contact requirements.
- Confidentiality.
- Reporting.
- Compensation.
- Monitoring.
- Termination.

21. Training of Recovery Agents

The bank should ensure that recovery agents receive appropriate training.
Training should cover:

- Banking/recovery procedures.
- Customer rights.
- Communication skills.
- Fair treatment.
- Confidentiality.
- Applicable regulatory instructions.
- Recovery ethics.
- Handling difficult situations.
- Complaint procedures.

22. Fair and Respectful Recovery

A bank's recovery process must not become harassment.
Recovery agents must not engage in:

- Threats
- Intimidation
- Abuse
- Violence
- Humiliation
- Public shaming
- Unlawful pressure
- Repeated inappropriate contact

Recovery must be conducted according to applicable law and regulatory requirements.

23. Proper Identification

When contacting a borrower, recovery agents should follow the bank's prescribed identification and communication procedures.
Customers should be able to understand:

- Who is contacting them.
- On whose behalf they are acting.
- What the outstanding issue is.
- How to make payment through authorized channels.

24. Confidentiality During Recovery

A DRA must maintain confidentiality.
They should not unnecessarily disclose a customer's debt information to:

- Neighbors
- Friends
- Employers
- Relatives
- Unrelated persons

unless disclosure is legally permitted or otherwise properly authorized.

25. No Unauthorized Collection

Recovery agents should not:

- Collect money into personal accounts.
- Demand unauthorized fees.
- Alter the amount due.
- Provide false settlement promises.
- Issue unofficial receipts.

Payments should be made through **authorized bank channels/procedures**.

26. Bank Remains Responsible for Oversight

The bank must monitor the conduct of recovery agents.

The bank should have mechanisms for:

- Complaints
- Monitoring
- Review
- Corrective action
- Termination of agents who violate requirements

PART C — BC/BF/DRA COMPARISON

Particular	**BC**	**BF**	**DRA**
Full form	Business Correspondent	Business Facilitator	Direct Recovery Agent
Main role	Banking service delivery	Facilitation of banking services	Recovery of bank dues
Financial inclusion	Major role	Major role	Not primary role
Customer service	Yes	Yes	Mainly borrower/recovery interaction
Cash transactions	May perform authorized transactions	Generally, facilitation rather than transaction handling	Not the primary function
Loan sourcing	May perform authorized activities	May facilitate/sourcing	Recovery of existing dues
Financial literacy	Important	Important	Not primary
Recovery	Not primary role	Not primary role	**Primary role**
Customer protection	Essential	Essential	Essential
Bank supervision	Required	Required	Required

27. Bank's Responsibilities — Common to BC/BF/DRA

The bank should ensure:

1. Proper selection

Choose suitable and trustworthy agents.

2. Due diligence

Verify background and suitability.

3. Written agreement

Define roles, powers and responsibilities.

4. Training

Ensure agents understand their duties.

5. Monitoring

Regularly monitor activities.

6. Customer protection

Ensure fair treatment.

7. Confidentiality

Protect customer information.

8. Grievance redressal

Provide appropriate complaint mechanisms.

9. Audit

Conduct appropriate checks and reviews.

10. Corrective action

Take action against misconduct.

28. What the Bank Must Ensure the Agent Does NOT Do

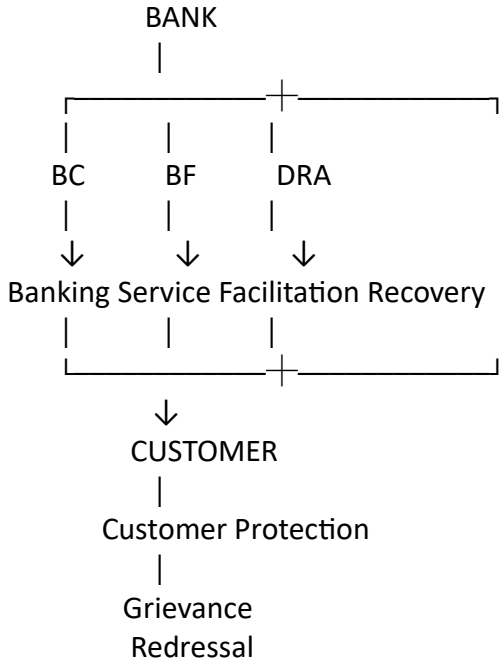
BC/BF

❌ Misuse customer money
❌ Collect unauthorized fees
❌ Mis-sell products
❌ Misrepresent bank products
❌ Ask for OTP/PIN/UPI PIN/password
❌ Manipulate transactions
❌ Disclose customer information

DRA

❌ Threaten borrowers
❌ Harass borrowers
❌ Publicly shame borrowers
❌ Use abusive language
❌ Use violence/intimidation
❌ Collect unauthorized money
❌ Make false promises regarding settlement

29. Bank–Agent–Customer Relationship



30. Important Principle: Agent Acts for the Bank

The customer should understand that the BC/BF/DRA is acting in connection with the bank's authorized activities.

Therefore, the bank needs effective systems to ensure that its agents:

- Follow instructions.
- Act within authority.
- Protect customers.
- Maintain records.
- Follow regulatory requirements.

31. Bank's Responsibility for Reputation Risk

Poor agent behaviour can directly damage the bank's reputation.

For example:

DRA harasses borrower

↓

Customer loses trust in DRA

↓

Customer associates the conduct with the bank

↓

Bank's reputation suffers

Therefore, agent management is also a **reputation-risk management function**.

32. BC/BF/DRA — Simple Memory Formula

BC = BANKING

Helps deliver authorized banking services.

BF = FACILITATION

Helps facilitate/sourcing of banking services within the permitted scope.

DRA = RECOVERY

Helps recover outstanding bank dues through lawful and authorized methods.

33. Exam-Ready Answer

A bank has the responsibility to properly select, conduct due diligence on, appoint, train, supervise and monitor its BCs, BFs and DRAs. The bank should clearly define their roles and powers through appropriate agreements, provide necessary training and infrastructure, ensure customer protection and confidentiality, maintain adequate transaction and record-keeping systems, conduct audits and inspections, and establish an effective grievance-redressal mechanism. For BC/BFs, the bank must ensure proper delivery/facilitation of authorized banking services, financial inclusion and financial-literacy activities. For DRAs, the bank must ensure that recovery is conducted fairly, lawfully and without harassment, intimidation or misuse of customer information. The bank must take corrective action against misconduct and cannot simply avoid responsibility by stating that the activity was performed by an agent.

Golden Principle

Select properly → Train properly → Authorize clearly → Monitor continuously → Protect customers → Redress complaints → Take corrective action.

And the most important point for examinations:

Outsourcing an activity to a BC/BF/DRA does not relieve the bank of its responsibility to customers and of the need for effective oversight and control.

Module C: TECHNICAL SKILLS
Chapter 20: Soft Skills and Strategies for Recovery of Bank Loans
20.1 Objective
20.2 Introduction
20.3 Negotiation skills
20.4 Dealing with difficult borrowers
20.5 Strategy for Recovery
20.6 Farmers clubs and SHGs

Strategies for Recovery of Bank Loans

Loan recovery is the process by which a bank obtains repayment of the principal, interest and other legitimate dues from a borrower according to the agreed terms.

For banks, effective recovery is important because poor recovery can lead to **Overdues, stressed assets and NPAs**, reduce profitability and affect the bank's ability to lend further.

A good recovery strategy should be **timely, systematic, borrower-sensitive, legally compliant and fair**.

1. Objectives of Loan Recovery

The main objectives are to:

- Recover principal and interest on time.
- Prevent accounts from becoming NPAs.
- Identify early signs of repayment stress.
- Help genuine borrowers overcome temporary difficulties.
- Maximize recovery from stressed accounts.
- Minimize legal and administrative costs.
- Protect the bank's security/collateral.
- Treat borrowers fairly and lawfully.

2. Basic Recovery Strategy

A useful recovery framework is:

Prevent → Monitor → Identify → Contact → Counsel → Resolve → Recover → Enforce → Close

Loan Sanction
↓
Proper Documentation
↓
Regular Monitoring
↓
Early Warning Signals
↓
Prompt Customer Contact
↓
Counselling / Resolution
↓
Voluntary Repayment
↓
Restructuring / Settlement where appropriate
↓
Legal / Recovery Measures if necessary
↓
Recovery & Closure

3. Preventive Recovery Strategy

The best recovery strategy is to **prevent repayment problems before they occur**.

Before sanctioning a loan, the bank should properly assess:

- Borrower's identity.
- Income.
- Repayment capacity.
- Existing liabilities.
- Credit history.
- Purpose of loan.
- Business viability where applicable.
- Security/collateral where applicable.
- Cash-flow position.

Principle

Good credit appraisal is the first stage of good recovery.

4. Proper Documentation

The bank should ensure that loan documentation is:

- Complete.
- Accurate.
- Legally enforceable.
- Properly executed.
- Properly recorded.

This may include:

- Loan agreement.
- Demand promissory note, where applicable.
- Security documents.
- Mortgage/hypothecation documents.
- Guarantee documents.
- Insurance documents where applicable.

Proper documentation makes subsequent recovery action easier.

5. Regular Monitoring of Loans

The bank should monitor borrowers throughout the loan period.

Monitoring may include:

- Repayment behaviour.
- Account operations.
- Business performance.
- Cash flows.
- Stock/security where relevant.
- Financial statements where applicable.
- Changes in borrower circumstances.

Key idea

Do not wait until the account becomes an NPA to start recovery efforts.

6. Identify Early Warning Signals

Early warning signs may include:

- Repeated delayed instalments.
- Cheques being returned.
- Irregular account operations.
- Declining business activity.
- Reduced cash flows.
- Frequent requests for extensions.
- Diversion/misuse of funds.
- Deteriorating financial position.
- Failure to provide required information.

Early identification gives the bank more options for corrective action.

7. Prompt Communication with the Borrower

When repayment difficulties first appear, the bank should contact the borrower promptly.

The purpose is to determine:

- Why repayment has stopped.
- Whether the problem is temporary or permanent.
- Whether the borrower has genuine financial difficulty.
- Whether a viable repayment solution exists.

Important

Early communication is generally better than waiting for the problem to worsen.

8. Borrower Counselling

Some borrowers may be willing and capable of repaying but may need guidance.

The bank can discuss:

- Repayment schedule.
- Outstanding amount.
- Available options under applicable policy.
- Financial discipline.
- Consequences of continued default.

For suitable cases, **financial counselling** can help the borrower understand how to manage repayment.

9. Voluntary Repayment

The first preference should generally be to obtain repayment voluntarily.

The bank can encourage:

- Immediate payment of overdue instalments.
- Regular repayment.
- Payment through authorized channels.
- Agreement on a realistic repayment plan where permitted.

Advantage

Voluntary recovery generally costs less and preserves the **bank-borrower relationship**.

10. Restructuring / Resolution for Genuine Difficulties

A temporary repayment problem does not necessarily mean that the borrower is unwilling to pay.

For a viable borrower facing genuine temporary difficulties, the bank may consider appropriate **resolution/restructuring measures**, subject to applicable regulatory requirements and the bank's policy.

Possible measures may include, where permitted:

- Revised repayment schedule.
- Change in repayment period.
- Other restructuring/resolution measures.

Important

Restructuring should not be used merely to hide an actual stressed asset or avoid proper asset classification.

11. Settlement / Compromise

In appropriate cases, a bank may consider a **compromise settlement/one-time settlement (OTS)** according to its approved policy and applicable regulations.

Under a settlement arrangement, the borrower may pay an agreed amount in full and final settlement of the dues, subject to the terms approved by the bank.

Benefit

It can help the bank:

- Recover money faster.
- Reduce litigation costs.
- Close long-pending accounts.

But settlement should be based on proper assessment and authority.

12. Recovery Through Security/Collateral

Where a loan is secured, the bank may enforce the relevant security according to applicable law and procedures.
Examples include:

- Mortgage.
- Hypothecation.
- Pledge.
- Other legally enforceable security.

The bank should follow due process and applicable legal requirements.

13. Legal Recovery

If voluntary recovery and permissible resolution measures fail, the bank may initiate appropriate legal recovery proceedings.
Depending on the case, mechanisms may include:

- **Debt Recovery Tribunals (DRTs)** where applicable.
- **SARFAESI Act** measures for eligible secured assets.
- Civil/legal proceedings where appropriate.
- Other statutory recovery mechanisms.

The exact remedy depends on the type of loan, security, amount, borrower and applicable law.

14. Recovery Agents / DRAs

Banks may use **Direct Recovery Agents (DRAs)** or other authorized recovery personnel.
They should:

- Identify themselves properly.
- Communicate respectfully.
- Follow the bank's instructions.
- Maintain confidentiality.
- Follow applicable regulatory requirements.
- Use only lawful recovery methods.

They must **not**:

- Threaten.
- Intimidate.
- Abuse.
- Humiliate.
- Harass.
- Use violence.
- Publicly shame borrowers.

Recovery must be firm but lawful and respectful.

15. Follow the Bank's Recovery Policy

Recovery should not depend on individual discretion alone.

Banks should have clear procedures covering:

- Early warning signals.
- Follow-up.
- Demand notices.
- Recovery agents.
- Settlement.
- Legal action.
- Security enforcement.
- Write-off/technical write-off where applicable.
- Reporting and monitoring.

16. Prioritize Accounts Based on Risk

Banks should classify recovery cases according to factors such as:

- Amount outstanding.
- Age of overdue.
- Security available.
- Borrower's repayment capacity.
- Probability of recovery.
- Legal position.
- Nature of default.

This allows the bank to focus resources where recovery prospects are greatest.

17. Segment the Borrowers

Different borrowers require different recovery strategies.

A. Willing and capable

Strategy:

Encourage regular repayment.

B. Willing but temporarily unable

Strategy:

Counselling + appropriate resolution/restructuring where permissible.

C. Able but unwilling

Strategy:

Firm follow-up + enforcement/legal measures where appropriate.

D. Unable and financially distressed

Strategy:

Assess viable resolution/settlement/recovery options according to policy and law.

E. Fraudulent/willful misconduct cases

Strategy:

Appropriate investigation, classification and legal/regulatory action.

18. Technology-Based Recovery

Banks increasingly use technology for:

- SMS/email reminders.
- Digital repayment facilities.
- Automated alerts.
- Collection dashboards.
- Overdue monitoring.
- Data analytics.
- Early-warning systems.

Technology can help identify stressed accounts earlier and improve collection efficiency.

19. Digital Payment Facilities

Making repayment easy can improve recovery.

Banks can provide appropriate authorized channels such as:

- Internet banking.
- Mobile banking.
- UPI where applicable.
- Auto-debit/standing instructions.
- Branch payment.
- Other authorized digital channels.

The easier it is for a willing borrower to pay, the lower the friction in recovery.

20. Incentivize Regular Repayment

Banks can encourage good repayment behaviour through appropriate products and policies, such as:

- Recognition of good credit behaviour.
- Access to suitable future credit.
- Appropriate pricing/benefits where permitted.

The objective is to create a culture of **timely repayment**.

21. Recovery Through BC/BF Channels

BCs can play a useful role in certain financial-inclusion and customer-service activities related to borrowers, within their authorized functions.

They can:

- Remind customers about repayment obligations.
- Explain repayment schedules.
- Facilitate authorized payments.
- Help customers understand banking procedures.
- Provide financial education.
- Communicate relevant information to the bank.

However, a BC/BF should **not undertake recovery actions beyond their authority**.

22. Recovery Through Financial Counselling

A borrower may default because of:

- Poor financial planning.
- Irregular income.
- Business difficulties.
- Temporary loss of employment.
- Unexpected expenses.

Counselling can help the borrower:

- Prepare a realistic budget.
- Understand the repayment obligation.
- Prioritize debt repayment.
- Avoid unnecessary borrowing.
- Explore legitimate resolution options.

23. Avoid Over-Indebtedness

Recovery problems often originate from excessive borrowing.

Banks should therefore assess:

- Existing loans.
- Total debt burden.
- Repayment capacity.
- Cash flow.

Responsible lending is an important **preventive recovery strategy**.

24. Monitor Guarantors and Security

Where applicable, banks should properly monitor:

- Guarantees.
- Collateral.
- Insurance.
- Documentation.
- Security perfection and enforceability.

The bank should ensure that security is properly maintained and legally enforceable.

25. Avoid Delay in Recovery Action

Delay can reduce recovery prospects because:

- Security value may decline.
- Borrower's financial position may worsen.
- Documentation problems may emerge.
- Legal processes may take time.

Therefore:

Early action generally improves recovery options.

But "early action" must always mean **lawful and procedurally proper action**.

26. Special Strategy for Agricultural Loans

Agricultural borrowers may face seasonal and natural risks.

Recovery should take into account:

- Crop cycles.
- Seasonal income.
- Weather/natural calamities.
- Market conditions.
- Government/regulatory relief measures where applicable.

Banks should follow applicable regulatory and government directions rather than treating every agricultural default as an ordinary commercial default.

27. Special Strategy for MSME Loans

MSMEs may experience temporary cash-flow problems.

The bank should examine:

- Sales.
- Receivables.
- Inventory.
- Working capital.
- Business viability.
- Market conditions.

A viable business with a temporary cash-flow problem may require a different strategy from a permanently unviable business.

28. Importance of Documentation in Recovery

Every recovery action should be properly documented.

Maintain records of:

- Notices.
- Customer communication.
- Promises to pay.
- Payments received.
- Settlement proposals.
- Restructuring decisions.
- Legal actions.
- Security enforcement.
- Recovery-agent interactions.

Good records support **transparency, audit and legal enforceability**.

29. Recovery Should Be Ethical

A successful recovery strategy is not simply:

"Get the money at any cost."

It is:

"Recover legitimate dues through fair, lawful, transparent and effective methods."

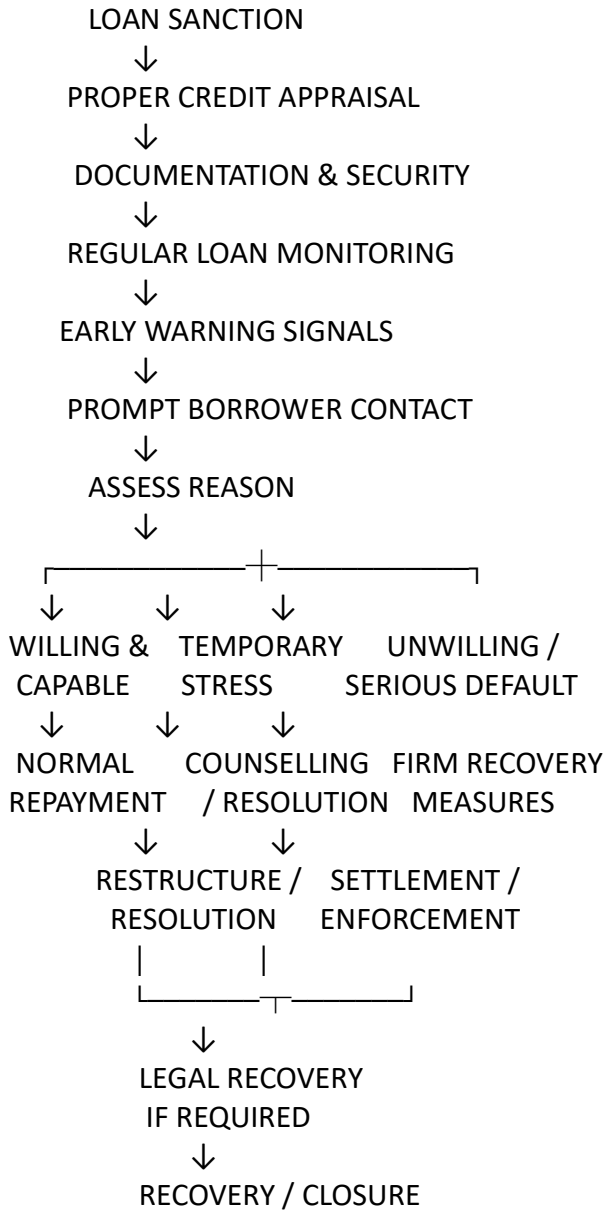
This protects:

- Borrower rights.
- Bank reputation.
- Employee/agent conduct.
- Legal compliance.
- Long-term customer relationships.

30. Strategies According to Borrower Behaviour

Borrower situation	**Appropriate strategy**
Regular payer	Maintain relationship and monitor
Minor delay	Reminder and follow-up
Temporary financial difficulty	Counselling/resolution assessment
Genuine business stress	Viability assessment and appropriate resolution
Repeated default	Intensive monitoring and recovery action
Willing but unable	Appropriate restructuring/settlement where permitted
Able but unwilling	Firm recovery and enforcement
Fraud/willful misconduct concerns	Investigation and appropriate legal/regulatory action
Untraceable borrower	Appropriate tracing/legal recovery procedures

31. Complete Loan Recovery Framework



32. Role of DRA in Loan Recovery

A **Direct Recovery Agent (DRA)** can support the bank's recovery process by:

- Contacting borrowers through authorized methods.
- Communicating outstanding dues.
- Following up on repayment.
- Facilitating communication between borrower and bank.
- Assisting in recovery as authorized.

DRA must maintain:

Courtesy + Confidentiality + Identification + Compliance + Accurate communication

DRA must never use:

Threats + Abuse + Harassment + Violence + Public humiliation

33. Do's and Don'ts in Loan Recovery

DO

✅ Contact borrowers promptly.
✅ Verify facts before communicating.
✅ Maintain proper records.
✅ Explain outstanding dues accurately.
✅ Offer legitimate resolution options where applicable.
✅ Treat borrowers respectfully.
✅ Protect confidentiality.
✅ Use authorized payment channels.
✅ Escalate cases requiring legal action.
✅ Follow bank policy and applicable law.

DON'T

❌ Threaten borrowers.
❌ Harass borrowers.
❌ Use abusive language.
❌ Publicly shame borrowers.
❌ Make false settlement promises.
❌ Collect money into personal accounts.
❌ Hide charges or amounts due.
❌ Misrepresent legal consequences.
❌ Disclose debt information unnecessarily.
❌ Take action outside your authority.

34. Key Principles of Effective Recovery

1. Prevention is better than recovery.
2. Early identification is better than late action.
3. Communication is better than avoidance.
4. Resolution is preferable where the borrower is genuinely viable.
5. Enforcement is necessary when voluntary recovery fails.
6. Recovery must always be lawful and fair.
7. Customer dignity must be protected.
8. Documentation is essential.

35. Exam-Ready Answer

The major strategies for recovery of bank loans include proper credit appraisal and documentation before sanction, continuous monitoring of loan accounts, identification of early warning signals, prompt communication with borrowers, borrower counselling, voluntary repayment, appropriate restructuring or resolution for genuine financial difficulties, compromise/settlement where permitted, enforcement of security, use of authorized recovery agents, and legal recovery through appropriate statutory mechanisms where necessary. Banks should segment borrowers according to their repayment capacity and reasons for default and adopt suitable recovery strategies. Recovery should be timely, systematic, transparent, ethical

and compliant with applicable law and regulatory requirements. Recovery agents/DRAs must not use harassment, intimidation, abuse or unlawful methods.

Easy formula for examination

APPRAISE → DOCUMENT → MONITOR → IDENTIFY → CONTACT → COUNSEL → RESOLVE → RECOVER → ENFORCE → CLOSE

Most important principle

Effective loan recovery is not merely the collection of overdue money; it is a systematic process of preventing default, identifying stress early, finding viable solutions for genuine borrowers and taking lawful enforcement action when necessary.

Soft Skills and Hard Skills Mandatory for BC/BF/DRA

For **Business Correspondents (BCs), Business Facilitators (BFs), and Direct Recovery Agents (DRAs)**, skills can be divided into:

- **Soft skills** — how the person communicates, behaves and manages relationships.
- **Hard skills** — the technical, banking, operational and regulatory knowledge required to perform the assigned role.

Important: The exact training/certification requirements can vary by role, bank, activity and applicable RBI/industry requirements. The list below is a comprehensive **practical competency checklist** rather than a claim that every item is legally prescribed as a standalone mandatory qualification.

A. SOFT SKILLS — COMMON TO BC/BF/DRA

1. Communication Skills

Ability to communicate banking/recovery information:

- Clearly
- Accurately
- Politely
- In simple language
- In the customer's preferred/local language where possible

2. Active Listening

Ability to:

- Listen without unnecessary interruption.
- Understand the customer's actual concern.
- Ask appropriate questions.
- Confirm understanding.

3. Empathy

Ability to understand the customer's financial difficulties, concerns and emotions without compromising bank rules.

4. Patience

Particularly important when dealing with:

- Senior citizens
- First-time customers
- Low-literacy customers
- Digitally inexperienced customers
- Distressed borrowers

5. Emotional Intelligence

Ability to:

- Control one's own emotions.
- Recognize customer emotions.
- Remain calm under pressure.
- Respond appropriately to anger, fear or frustration.

6. Customer-Service Orientation

The ability to provide:

- Respectful service
- Timely assistance
- Accurate information
- Appropriate guidance
- Professional support

7. Relationship-Building

Ability to establish:

- Rapport
- Credibility
- Trust
- Long-term professional relationships

8. Integrity and Honesty

A BC/BF/DRA must be:

- Honest
- Transparent
- Trustworthy
- Ethical
- Accountable

9. Persuasion

Ability to explain and persuade **without coercion or manipulation**.

Particularly important for:

- Product awareness
- Financial inclusion
- Repayment discussions

10. Negotiation

Ability to:

- Understand interests.
- Identify alternatives.
- Communicate expectations.
- Reach legitimate agreements within authority.

11. Conflict Management

Ability to handle disagreements without:

- Arguing
- Threatening
- Insulting
- Escalating the situation

12. Problem-Solving

Ability to identify the problem and determine whether it can be:

- Solved directly,
- Referred to the bank, or
- Escalated through the prescribed process.

13. Adaptability

Ability to deal with different:

- Customer types
- Languages
- Education levels
- Financial situations
- Technologies
- Circumstances

14. Cultural Sensitivity

Respect different backgrounds, customs, languages and communication styles.

15. Professionalism

Maintain:

- Proper conduct
- Punctuality
- Discipline
- Professional appearance
- Appropriate communication

16. Confidentiality Mindset

Understand the importance of protecting:

- Customer information
- Account information
- Financial information
- Documents
- Transaction details

17. Time Management

Ability to manage:

- Customer interactions
- Transactions
- Documentation
- Follow-ups
- Reporting

efficiently.

18. Stress Management

Particularly important for handling:

- Difficult customers
- High workloads
- Failed transactions
- Recovery situations

B. HARD SKILLS — COMMON TO BC/BF/DRA

1. Basic Banking Knowledge

Understanding:

- Banking system
- Types of banks
- Bank accounts
- Deposits
- Loans
- Interest
- Banking services
- Payment systems

2. KYC Knowledge

Understanding the bank's applicable procedures for:

- Customer identification
- KYC documentation
- Account opening
- Customer verification
- Updating KYC

3. AML/CFT Awareness

Basic knowledge of:

- Anti-Money Laundering
- Customer due diligence
- Suspicious transactions
- Unusual transaction patterns
- Escalation/reporting requirements

4. Customer Protection

Knowledge of:

- Customer rights
- Responsibilities
- Fair treatment
- Transparency
- Charges
- Grievance mechanisms
- Safe banking

5. Banking Product Knowledge

Depending on the role and authorized activities:

Deposits

- Savings accounts
- Current accounts
- Fixed deposits
- Recurring deposits

Credit

- Agricultural loans
- KCC
- MSME loans
- Personal loans
- Housing loans
- Other authorized products

Protection

- Insurance
- Pension

Payments

- UPI
- Cards
- ATM
- POS
- AePS
- Micro-ATM

C. TECHNICAL SKILLS PARTICULARLY IMPORTANT FOR BCs

6. Micro-ATM Operation

Knowledge of:

- Device login/use
- Transaction selection
- Customer authentication
- Cash withdrawal/deposit where authorized
- Receipt generation
- Transaction status
- Failed transactions
- Reconciliation

7. Biometric Device Handling

Ability to:

- Operate the biometric device.
- Conduct authorized authentication.
- Handle authentication failures.
- Follow security procedures.

8. AePS Knowledge

Understand:

Aadhaar Enabled Payment System (AePS) and applicable authorized services such as:

- Cash withdrawal
- Balance enquiry
- Other permitted transactions/services

9. POS Terminal Skills

Knowledge of:

- Card insertion
- Contactless transactions
- PIN-based transactions
- Transaction confirmation
- Receipt generation
- Failed transactions
- Settlement/reconciliation

10. Digital Payment Skills

Understanding:

- UPI
- QR payments
- BHIM
- Bharat QR
- IMPS
- NEFT
- RTGS
- Other relevant digital-payment systems

11. ATM Knowledge

Understand:

- Cash withdrawal
- Balance enquiry
- Mini statement
- Card usage
- PIN safety
- Failed transactions
- Basic troubleshooting

12. Mobile Banking

Knowledge of:

- Registration/activation procedures as applicable
- Balance enquiry
- Fund transfer
- Bill payments
- Security precautions
- Fraud prevention

13. Internet Banking

Understanding:

- Login/security
- Account information
- Fund transfers
- Statements
- Digital security
- Password safety

14. Aadhaar Seeding and e-KYC

Basic understanding of:

- Aadhaar linking/seeding where applicable
- e-KYC
- Authentication
- Customer consent
- Data privacy/security

15. Cash Management

Where the BC is authorized to handle cash:

- Cash receipt
- Cash payment
- Cash limits
- Cash balancing
- Daily reconciliation
- Record maintenance
- Handling shortages/excesses

Formula

Opening Cash + Cash Received − Cash Paid = Closing Cash

16. Basic Connectivity Troubleshooting

A BC should know basic checks for:

- Mobile network
- SIM/data
- Wi-Fi
- Device connectivity
- Battery
- Application errors
- Server/connectivity failures

Basic sequence

Check power → Check network → Check connection → Check transaction status → Retry only where appropriate → Escalate

17. Transaction Reconciliation
Ability to compare:
System records + receipts + cash + transaction records
and identify discrepancies.

18. Financial Literacy Skills
BC/BFs should be able to explain basic concepts relating to:

- Savings
- Interest
- Loans
- EMI
- Insurance
- Pension
- Digital payments
- Fraud prevention
- Financial planning

D. HARD SKILLS PARTICULARLY IMPORTANT FOR BFs
A BF's skills are more focused on **facilitation and sourcing**.
19. Customer Need Identification
Ability to identify:

- Banking requirements
- Credit requirements
- Deposit needs
- Insurance/pension awareness needs

20. Product Sourcing/Facilitation
Ability to:

- Explain relevant products.
- Facilitate applications.
- Collect information/documents as authorized.
- Forward applications through prescribed channels.
- Track/follow up appropriately.

Important
Facilitation does not mean guaranteeing approval.

21. Documentation Skills
Ability to handle:

- Application forms
- Supporting documents
- Customer information
- Acknowledgements
- Records

accurately and securely.

22. Financial Counselling Skills
Ability to provide basic guidance on:

- Saving
- Borrowing
- Repayment
- Insurance
- Pension
- Digital financial services

within the permitted scope.

E. HARD SKILLS PARTICULARLY IMPORTANT FOR DRAs
23. Loan Recovery Knowledge
Understanding:

- Outstanding principal
- Interest
- Overdues
- Instalments
- Repayment schedules
- Default
- Recovery process

24. Credit and Loan Documentation
Basic knowledge of:

- Loan agreements
- Security
- Guarantees
- Repayment schedules
- Relevant recovery documentation

25. Recovery Process
Understanding:
Reminder → Contact → Follow-up → Repayment discussion → Appropriate resolution → Escalation/enforcement
according to bank policy and applicable law.

26. Recovery Negotiation
A DRA should be able to:

- Explain legitimate dues.
- Understand the borrower's repayment difficulty.
- Discuss authorized repayment options.
- Communicate authorized settlement options.
- Document commitments appropriately.

27. Legal/Regulatory Awareness

A DRA should understand the **limits of recovery activity** and applicable requirements concerning:

- Fair treatment.
- Customer/borrower rights.
- Permitted communication.
- Confidentiality.
- Recovery practices.
- Escalation.

The DRA must know that **recovery does not permit harassment or coercion**.

28. Recovery Documentation

Maintain appropriate records of:

- Contact attempts.
- Communications.
- Payment commitments.
- Payments received.
- Escalations.
- Recovery actions.

F. CYBERSECURITY AND FRAUD-AWARENESS SKILLS

These are increasingly important for **all three roles**.

A BC/BF/DRA should understand:

Common frauds

- Phishing
- Smishing
- Vishing
- OTP fraud
- UPI fraud
- QR-code fraud
- Fake customer-care calls
- Fake loan offers
- Fake payment screenshots
- Identity theft

Security rules

Never ask customers for OTP, PIN, UPI PIN, password or other confidential authentication credentials.

G. COMPLAINT-HANDLING SKILLS

All three should know the basic complaint-handling process:

Listen → Understand → Verify → Resolve/Escalate → Acknowledge → Explain → Follow up

They should know:

- What they can resolve.
- What requires escalation.
- How to provide appropriate reference/acknowledgement.
- How to handle an angry customer.
- How to maintain confidentiality.

H. BC/BF/DRA — SKILLS COMPARISON

Skill	BC	BF	DRA
Communication	**Essential**	**Essential**	**Essential**
Active listening	**Essential**	**Essential**	**Essential**
Empathy	**Essential**	**Essential**	**Essential**
Patience	**Essential**	**Essential**	**Essential**
Integrity	**Essential**	**Essential**	**Essential**
Customer relationship	**Essential**	**Essential**	Important
Financial literacy	**Essential**	**Essential**	Basic
Banking knowledge	**Essential**	**Essential**	**Essential**
KYC awareness	**Essential**	**Essential**	Relevant
AML awareness	**Essential**	**Essential**	Relevant
Micro-ATM	**Essential where used**	Usually not central	Usually not central
Biometric devices	**Essential where used**	Usually not central	Usually not central
AePS	**Essential where used**	Not central	Not central
POS	Relevant	Relevant where assigned	Usually not central
Digital banking	**Essential**	**Essential**	Basic
Cash management	**Essential where authorized**	Usually not central	Not central
Financial counselling	**Essential**	**Essential**	Limited
Product sourcing	Important	**Essential**	Not primary
Loan recovery	Limited	Limited	**Essential**
Recovery negotiation	Limited	Limited	**Essential**
Legal recovery awareness	Basic	Basic	**Essential**
Complaint handling	**Essential**	**Essential**	**Essential**
Cyber/fraud awareness	**Essential**	**Essential**	**Essential**
Record keeping	**Essential**	**Essential**	**Essential**

I. Most Important Soft Skills — Shortlist

If you are preparing for a **BC/BF/DRA examination**, remember these **15**:

1. **Communication**
2. **Active listening**
3. **Empathy**
4. **Patience**
5. **Integrity**
6. **Honesty**
7. **Trust building**
8. **Customer service**
9. **Emotional intelligence**

10. **Negotiation**
11. **Persuasion**
12. **Conflict management**
13. **Problem-solving**
14. **Adaptability**
15. **Professionalism**

J. Most Important Hard Skills — Shortlist

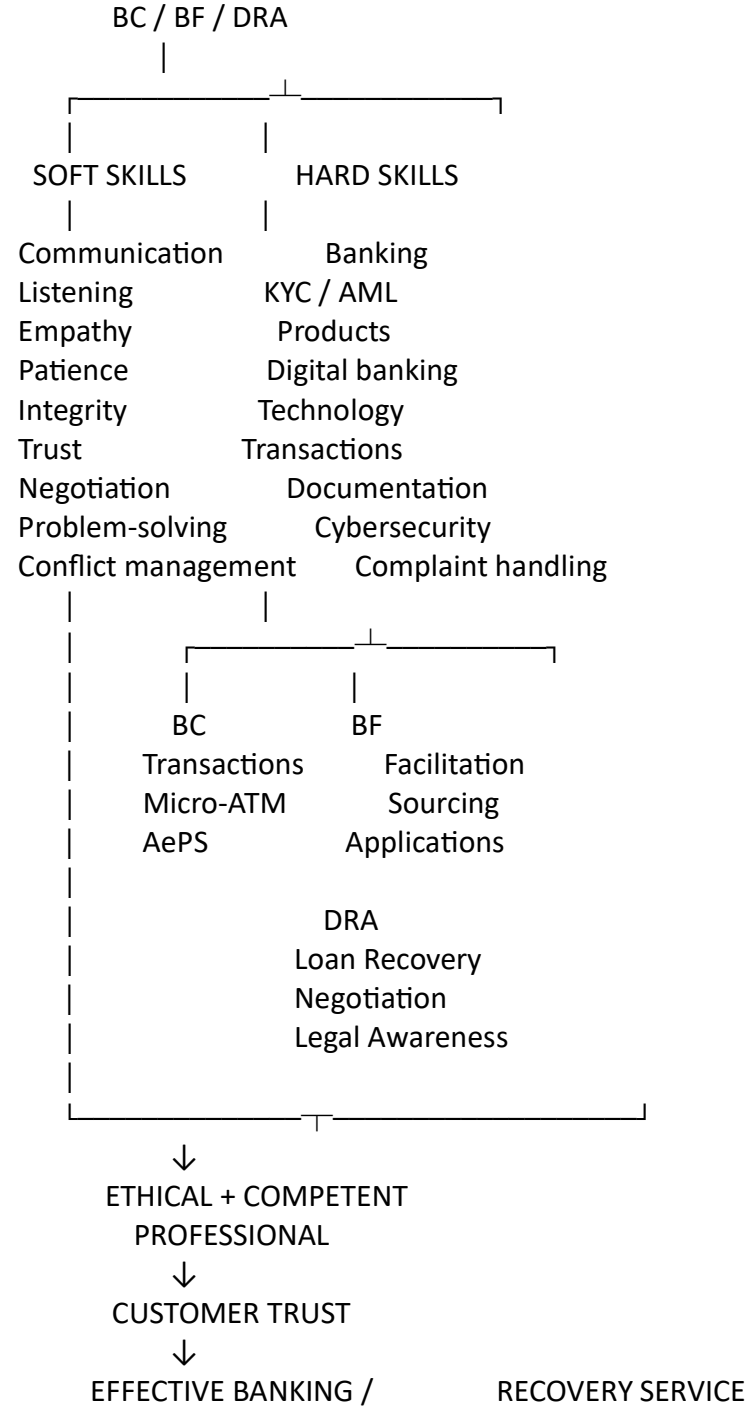
Remember these **15**:

1. **Basic banking knowledge**
2. **KYC**
3. **AML/CFT awareness**
4. **Banking-product knowledge**
5. **Digital banking**
6. **Micro-ATM operation**
7. **Biometric-device handling**
8. **AePS**
9. **POS/ATM knowledge**
10. **Cash management**
11. **Transaction processing**
12. **Record keeping/reconciliation**
13. **Financial literacy**
14. **Fraud/cybersecurity awareness**
15. **Complaint/grievance procedures**

For **DRA**, additionally remember:

16. **Loan/recovery process**
17. **Recovery negotiation**
18. **Legal/regulatory awareness**
19. **Recovery documentation**
20. **Authorized settlement/resolution communication**

K. Complete Skill Framework



Exam-Ready Answer

The essential soft skills for BC/BF/DRA include communication, active listening, empathy, patience, integrity, honesty, customer orientation, relationship building, emotional intelligence, negotiation, persuasion, conflict management, problem-solving, adaptability, professionalism and confidentiality. Essential hard skills include basic banking knowledge, KYC/AML awareness, banking-product knowledge, digital banking, transaction processing, customer protection, fraud awareness, complaint handling, record keeping and relevant

technology skills. BCs additionally require skills in Micro-ATM, biometric devices, AePS, POS/ATM, cash handling and transaction reconciliation where applicable. BFs require customer-needs assessment, product sourcing, application facilitation and financial-literacy skills. DRAs additionally require loan-recovery knowledge, repayment negotiation, recovery documentation and awareness of applicable legal and regulatory requirements. All three must operate strictly within their authorized powers and follow bank procedures.

Easy formula

BC = Banking + Technology + Customer Service

BF = Facilitation + Sourcing + Financial Education

DRA = Recovery + Negotiation + Compliance

All three = Communication + Integrity + Customer Protection + Technical Competence

Negotiation Skills for BC/BF/DRA

Negotiation skills are especially important for BCs, BFs and Direct Recovery Agents (DRAs), but their purpose differs by role.

- **BC:** negotiate/communicate to understand customer needs and facilitate appropriate banking services.
- **BF:** negotiate/communicate primarily for facilitation, sourcing and customer relationship building.
- **DRA:** negotiate repayment and recovery of legitimate bank dues within the bank's authority and applicable rules.

Important: Negotiation does **not** mean changing bank rules, promising unauthorized concessions, threatening customers, or forcing a customer to accept a product or repayment arrangement.

1. Essential Negotiation Skills — Common to BC/BF/DRA

No.	Negotiation skill	What it means in practice
1	**Active listening**	Listen carefully before responding
2	**Questioning**	Ask relevant questions to understand the real issue
3	**Clear communication**	Explain facts in simple language
4	**Empathy**	Understand the customer's situation
5	**Emotional control**	Remain calm under pressure
6	**Patience**	Avoid rushing the customer
7	**Rapport building**	Establish a comfortable professional relationship
8	**Trust building**	Be honest, transparent and reliable
9	**Persuasion**	Present legitimate benefits and options without pressure
10	**Problem-solving**	Find practical solutions within authority
11	**Conflict management**	Handle disagreement without confrontation
12	**Questioning assumptions**	Establish facts rather than relying on assumptions
13	**Negotiation planning**	Know the objective, authority and limits beforehand
14	**Option generation**	Identify permissible alternatives
15	**Decision-making**	Choose an appropriate course of action
16	**Compromise skills**	Find mutually workable solutions where permitted
17	**Assertiveness**	State legitimate requirements firmly but respectfully
18	**Adaptability**	Adjust communication to different customers

No.	Negotiation skill	What it means in practice
19	**Cultural sensitivity**	Respect different backgrounds and communication styles
20	**Follow-up**	Ensure agreed actions are properly followed

2. Active Listening

This is probably the **most important negotiation skill**.

A BC/BF/DRA should:

- Listen without unnecessary interruption.
- Identify the customer's actual concern.
- Clarify unclear statements.
- Summarize what the customer said.

Example

"If I understand correctly, you are willing to repay, but your income has been temporarily affected. Is that correct?"

This shows that the agent has actually listened.

3. Questioning Skills

Good negotiators ask **open and relevant questions**.

Examples:

- "What difficulty are you facing?"
- "When did the problem start?"
- "What repayment arrangement are you currently following?"
- "What information would help you decide?"
- "What solution are you looking for?"

Avoid aggressive questioning that makes the customer feel interrogated.

4. Empathy

Negotiation becomes easier when the customer feels understood.

For example:

"I understand that your business has been facing a temporary cash-flow problem. Let's look at what options are available under the bank's policy."

Empathy does **not** mean agreeing to every customer demand.

5. Emotional Intelligence

BC/BFs and especially DRAs may encounter emotional customers.

They should recognize:

- Anger
- Fear
- Anxiety
- Confusion
- Frustration

and respond calmly.

Rule:

Control your emotions before trying to manage the customer's emotions.

6. Persuasion
Persuasion means helping the customer understand the legitimate benefits of an appropriate banking service or repayment option.
Good persuasion
Facts + Benefits + Costs + Conditions + Customer choice
Bad persuasion
Pressure + Threat + False promise + Concealment

7. Assertiveness
Being polite does not mean being passive.
A BC/BF/DRA should be able to say:
"This is the amount shown in the bank's records, and I cannot change it myself. If you believe it is incorrect, I can explain the appropriate complaint/dispute process."
This is **firm but respectful**.

8. Problem-Solving
The negotiator should focus on:
"What legitimate solution is available?"
rather than:
"Who is at fault?"
Possible solutions depend on the role and bank policy.
For example:

- Correcting an operational problem.
- Providing information.
- Facilitating an authorized service.
- Guiding a borrower toward an available repayment/resolution process.
- Escalating an issue requiring bank approval.

9. Conflict Management
When disagreement occurs:
Use:
Listen → Clarify → Verify → Explain → Find permitted solution → Escalate if necessary
Do not:

- Shout.
- Insult.
- Threaten.
- Humiliate.
- Argue unnecessarily.

10. Building Rapport
Rapport means creating a comfortable professional connection.
It can be developed through:

- Polite greeting.
- Respectful communication.

- Using understandable language.
- Remembering relevant customer-service context.
- Being punctual.
- Keeping commitments.

11. Transparency

A BC/BF/DRA should clearly state:

- What is known.
- What is not known.
- What they can do.
- What they cannot do.
- What charges/dues apply.
- What requires bank approval.

Trust increases when limitations are honestly explained.

12. Negotiation Planning

Before negotiating, the BC/BF/DRA should know:

Objective

What needs to be achieved?

Facts

What are the verified facts?

Authority

What am I authorized to do?

Limits

What am I not authorized to do?

Options

What permissible alternatives exist?

Escalation

When should the matter be referred to the bank?

13. Compromise Skills

A compromise may sometimes be appropriate, **but only where the person has authority to offer it and the bank's policy permits it**.

For example, a DRA should not personally promise:

"I'll reduce your outstanding loan by 50% if you pay me today."

That would be improper unless an authorized bank arrangement actually provides for it.

14. Negotiation Skills Specifically for BC

The BC's negotiation skills should focus on **customer needs and appropriate banking access**.

Important skills:

1. Customer-needs identification.
2. Product explanation.
3. Persuasion without pressure.
4. Financial-literacy communication.
5. Digital-banking education.

6. Handling objections.
7. Explaining charges and conditions.
8. Building trust.
9. Complaint handling.
10. Ethical product facilitation.

Example

Customer:
"I don't need a bank account."
BC:
"May I understand how you currently receive and save your money? I can explain the banking options available, and you can decide whether one is useful for you."

15. Negotiation Skills Specifically for BF

The BF's role is more **facilitation-oriented**.
Important skills include:

- Customer identification.
- Need assessment.
- Lead generation.
- Product awareness.
- Application facilitation.
- Customer counselling.
- Handling objections.
- Relationship management.
- Communication with bank officials.
- Follow-up.

The BF should not represent that **loan approval is guaranteed** merely because an application has been facilitated.

16. Negotiation Skills Specifically for DRA

For a DRA, negotiation focuses primarily on **lawful recovery of outstanding dues**.
Essential skills include:

1. Debt communication

Explain the outstanding amount accurately.

2. Borrower assessment

Understand the reason for non-payment.

3. Repayment negotiation

Discuss repayment possibilities within the bank's authority.

4. Financial empathy

Recognize genuine temporary difficulties.

5. Firmness

Clearly communicate legitimate repayment obligations.

6. Conflict management

Deal with angry or distressed borrowers professionally.

7. Settlement communication

Communicate only authorized settlement/OTS options.

8. Documentation

Record promises or arrangements according to bank procedure.

9. Escalation

Refer matters requiring bank approval.

10. Legal awareness

Understand the limits of recovery authority and applicable requirements.

---

17. DRA — What Negotiation Must NOT Become

A DRA should never confuse **negotiation with coercion**.

Negotiation

"The bank's records show an outstanding amount of ₹X. Let us discuss the repayment options available under the bank's policy."

Coercion

"Pay immediately or I will threaten your family/neighbours."

The second approach is **unacceptable**.

Recovery must be conducted through lawful, fair and respectful methods.

---

18. BATNA — Useful Negotiation Concept

A useful general negotiation concept is **BATNA**:

Best Alternative To a Negotiated Agreement

It means knowing what the legitimate alternative is if an agreement cannot be reached.

For example, in a recovery situation:

If an authorized repayment arrangement cannot be agreed upon, the bank may have other **lawful recovery/enforcement mechanisms** available.

The DRA should **not threaten these mechanisms falsely**, but should accurately communicate them when authorized.

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19. Negotiation Do's

✅ **Do**

- Prepare before negotiating.
- Listen carefully.
- Establish facts.
- Ask relevant questions.
- Be respectful.
- Explain clearly.
- Remain calm.
- Present legitimate options.
- Be transparent.
- Stay within authority.
- Document agreements.
- Escalate when necessary.
- Keep promises.
- Protect confidentiality.

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20. Negotiation Don'ts

❌ **Don't**

- Threaten.
- Harass.
- Intimidate.
- Insult.
- Humiliate.
- Lie.
- Hide material information.
- Make unauthorized promises.
- Guarantee loan approval.
- Promise unauthorized settlement.
- Collect unauthorized money.
- Disclose confidential information.
- Ask for OTP/PIN/password.
- Manipulate records.
- Exceed delegated authority.

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21. BC/BF/DRA Negotiation Skills — Comparison

Skill	BC	BF	DRA
Active listening	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Communication	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Empathy	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Customer relationship	⭐⭐⭐	⭐⭐⭐	⭐⭐
Product explanation	⭐⭐⭐	⭐⭐⭐	⭐
Need identification	⭐⭐⭐	⭐⭐⭐	⭐⭐
Persuasion	⭐⭐⭐	⭐⭐⭐	⭐⭐
Objection handling	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Conflict management	⭐⭐⭐	⭐⭐	⭐⭐⭐
Repayment negotiation	⭐	⭐	⭐⭐⭐
Settlement communication	⭐	⭐	⭐⭐⭐
Financial literacy	⭐⭐⭐	⭐⭐⭐	⭐
Legal/recovery awareness	⭐	⭐	⭐⭐⭐
Ethical conduct	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Confidentiality	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐
Escalation skills	⭐⭐⭐	⭐⭐⭐	⭐⭐⭐

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22. The 15 Most Important Skills for Examination

If the question asks **"List the negotiation skills required for BC/BF/DRA"**, write:

1. **Active listening**
2. **Effective communication**
3. **Questioning skills**
4. **Empathy**
5. **Emotional intelligence**
6. **Rapport building**
7. **Trust building**
8. **Persuasion**
9. **Assertiveness**
10. **Problem-solving**
11. **Conflict management**
12. **Objection handling**
13. **Compromise/alternative generation**
14. **Decision-making**
15. **Follow-up and relationship management**

Add:

Ethical behaviour, confidentiality and knowledge of one's authority are essential throughout the negotiation process.

---

23. Easy Memory Formula

L-E-A-P-P-C-T

L – Listen
E – Empathize
A – Analyze
P – Present options
P – Persuade ethically
C – Compromise where authorized
T – Take action/follow up

24. Exam-Ready Answer

The essential negotiation skills required by BCs, BFs and DRAs include active listening, effective communication, questioning, empathy, emotional intelligence, rapport building, trust building, persuasion, assertiveness, problem-solving, objection handling, conflict management, compromise and alternative generation, decision-making, documentation and follow-up. BC/BFs mainly use these skills to understand customer needs, explain and facilitate appropriate banking services and build relationships. DRAs use them mainly to communicate outstanding dues and negotiate lawful repayment solutions within the authority given by the bank. In all cases, negotiation must be transparent, ethical, respectful and within delegated authority. Threats, harassment, intimidation, false promises, unauthorized concessions and misuse of customer information are not negotiation skills and must be avoided.

IIBF- BC / BF Notes

Core principle

Good negotiation = Understand the other party + communicate clearly + find a legitimate solution + stay within authority + preserve the relationship.

Borrower: Meaning, Types and How BC/BF/DRA Should Deal with Difficult Borrowers

A **borrower** is a person, business or organization that obtains money or credit from a bank/financial institution and has an obligation to repay it according to the agreed terms.

In simple terms:

Lender gives money → Borrower receives money → Borrower has an obligation to repay.

A borrower may be an individual, farmer, business, company, partnership, trust, society or other eligible entity.

1. Meaning of Borrower

A **borrower** is a person or entity to whom a bank has provided a loan, credit facility or other form of financial accommodation and who is responsible for repayment of the amount due, together with applicable interest and other legitimate charges according to the terms of the facility.

Example

A farmer obtains a **Kisan Credit Card (KCC)** facility from a bank.

- **Bank = Lender**
- **Farmer = Borrower**
- **Amount sanctioned/drawn = Credit**
- **Interest = Cost of borrowing**
- **Repayment = Borrower's obligation**

2. Borrower vs Customer

These terms are related but not identical.

Customer

A person who uses a bank's products or services.

Borrower

A customer who has obtained **credit/loan facilities** from the bank.

Therefore:

Every borrower is generally a bank customer, but every bank customer is not a borrower.

Example

A person maintaining only a savings account:

Customer — not necessarily borrower

A person maintaining a savings account and a home loan:

Customer + Borrower

3. Types of Borrowers

Borrowers can be classified in several ways.

A. Individual Borrower

An **individual** takes a loan in their personal capacity.

Examples

- Personal-loan borrower
- Home-loan borrower
- Vehicle-loan borrower
- Education-loan borrower

Common characteristics

- Individual income is assessed.
- Repayment capacity is considered.
- Personal KYC is required.
- Credit history is relevant.

---

4. Joint Borrowers

Two or more individuals may jointly borrow from a bank.

Example

A husband and wife jointly take a housing loan.

Both may be:

Joint borrowers/co-borrowers

The exact liability depends on the loan agreement and applicable terms.

Bank considers

- Income
- Credit history
- Repayment capacity
- KYC
- Relationship between borrowers
- Loan purpose

---

5. Minor Borrower

A minor's ability to enter into contracts and borrow is subject to applicable law and the bank's policy.

Because lending to minors involves special legal considerations, banks must follow prescribed procedures.

BC/BF/DRA should

- Never assume that ordinary adult borrowing procedures apply.
- Follow the bank's instructions.
- Deal with the legally appropriate person/guardian where applicable.

---

6. Agricultural Borrower

Examples:

- Farmers
- Tenant farmers where eligible
- Agricultural entrepreneurs
- Agricultural producers

Common loans

- Crop loans
- KCC
- Agricultural term loans
- Farm-equipment loans
- Allied-activity loans

Recovery considerations

Agricultural income may be:

- Seasonal
- Weather-dependent
- Market-dependent

Therefore, the bank should consider applicable agricultural lending/recovery provisions and the borrower's genuine circumstances.

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7. Small Business / MSME Borrower

Examples:

- Shopkeepers
- Traders
- Small manufacturers
- Service providers
- Micro-enterprises
- Small businesses

Common facilities

- Working-capital finance
- Cash credit
- Overdraft
- Term loan
- Equipment finance

Assessment

The bank may consider:

- Cash flow
- Business turnover
- Existing liabilities
- Credit history
- Business viability
- Security where applicable

8. Sole Proprietorship Borrower

A **sole proprietorship** is owned and controlled by one proprietor.

The bank assesses the proprietor/business according to the applicable lending and KYC requirements.

Examples

- Grocery shop
- Small retail business
- Individual professional practice

9. Partnership Firm Borrower

A partnership firm has two or more partners carrying on business under a partnership arrangement.
The bank may assess:

- Firm's financial position.
- Partners.
- Partnership deed.
- Credit history.
- Business cash flow.
- Security/guarantees where applicable.

10. Company Borrower

A company may borrow in its own legal capacity.
Examples:

- Private company
- Public company
- Other incorporated entities

Common borrowing

- Term loans
- Working capital
- Project finance
- Equipment finance
- Other corporate credit facilities

The bank may assess:

- Financial statements
- Cash flows
- Management
- Business prospects
- Existing debt
- Security
- Credit history

11. Trust Borrower

A trust may obtain credit subject to:

- Applicable law.
- Trust documents.
- Bank policy.
- Authority of trustees.
- Purpose of borrowing.

12. Society / Association Borrower

Eligible societies or associations may borrow for permitted purposes.
The bank may examine:

- Registration documents.
- Governing documents.
- Financial position.

- Authorized signatories.
- Purpose of loan.
- Repayment capacity.

13. Government / Institutional Borrower

Government bodies or institutions may obtain financing according to applicable rules and arrangements.
Examples may include:

- Government institutions
- Local bodies
- Public-sector institutions
- Eligible educational institutions

14. Secured Borrower

A **secured borrower** obtains credit backed by security/collateral.
Examples:

- Home loan secured by mortgage.
- Vehicle loan secured by the vehicle.
- Business loan secured by property or other eligible security.

If the borrower defaults, the lender may have enforcement rights over the security subject to applicable law and procedure.

15. Unsecured Borrower

An **unsecured borrower** obtains credit without specific collateral securing the facility.
Examples may include certain:

- Personal loans
- Credit-card facilities
- Other unsecured credit products

Because there may be no specific collateral, the bank relies more heavily on:

- Income
- Credit history
- Repayment capacity
- Risk assessment

16. Guarantor and Borrower — Don't Confuse Them

A **guarantor** is not automatically the same as the principal borrower.
Borrower
Receives/uses the credit and has the primary repayment obligation according to the facility terms.
Guarantor
Provides a guarantee subject to the terms of the guarantee.
The exact legal liability of a guarantor depends on the guarantee and applicable law.

17. Willingness and Ability to Repay

For recovery purposes, borrowers can usefully be classified according to **willingness and ability to repay**.

Borrower	Willing to pay?	Able to pay?	Approach
Regular borrower	Yes	Yes	Normal monitoring
Temporarily stressed	Yes	Temporarily limited	Counselling/resolution assessment
Financially distressed	Yes	No/very limited	Appropriate resolution/recovery process
Able but unwilling	No	Yes	Firm lawful recovery
Disputed borrower	Unclear	Unclear	Verify facts and resolve dispute
Fraud-related case	Depends	Depends	Investigation/escalation

This classification is particularly useful for **DRA recovery work**.

PART II — WHAT IS A DIFFICULT BORROWER?

A **difficult borrower** is not necessarily a bad borrower.
A borrower may be "difficult" because of:

- Genuine financial hardship.
- Anger or frustration.
- Disagreement over dues.
- Poor communication.
- Lack of financial knowledge.
- Fear of recovery action.
- Temporary cash-flow problems.
- Unwillingness to cooperate.
- Dispute regarding the loan/account.
- Deliberate avoidance or non-cooperation.

Therefore:
First understand why the borrower is difficult; do not automatically assume unwillingness or dishonesty.

18. Types of Difficult Borrowers

A. Angry Borrower

May:

- Raise their voice.
- Blame the bank.
- Refuse to listen.
- Become argumentative.

Approach
Stay calm → Listen → Verify → Explain → Resolve/Escalate

19. Uncooperative Borrower

May:

- Avoid communication.
- Refuse to provide information.
- Ignore repayment reminders.

Approach

- Remain professional.
- Communicate through authorized channels.
- Clearly explain the legitimate obligation.
- Document interactions.
- Escalate where necessary.

20. Financially Distressed Borrower

The borrower may genuinely want to repay but lack sufficient funds because of:

- Loss of income.
- Business difficulties.
- Agricultural problems.
- Temporary cash-flow problems.
- Other financial difficulties.

Approach

Do not immediately treat the borrower as deliberately avoiding repayment.

Assess the situation and, where appropriate, guide them toward **permitted resolution/restructuring or other bank-approved options**.

21. Disputing Borrower

The borrower may say:

"The amount you are demanding is wrong."

Approach

Do not argue.

Instead:

1. Verify the account records.
2. Explain the verified position.
3. Identify the disputed component.
4. Refer the matter to the bank if required.
5. Provide the appropriate complaint/dispute mechanism.

22. Avoiding Borrower

This borrower repeatedly:

- Doesn't answer calls.
- Changes contact details without updating the bank.
- Avoids meetings.
- Makes repeated promises without payment.

Approach

- Follow authorized contact procedures.
- Document attempts.

- Escalate according to the bank's recovery process.
- Use appropriate lawful recovery mechanisms.

23. Abusive or Threatening Borrower

The borrower may use:

- Abusive language.
- Threats.
- Aggressive behaviour.

Approach

- Remain calm.
- Do not respond with threats.
- Maintain professional boundaries.
- End the interaction if necessary for safety.
- Report/escalate according to bank procedures.

24. Fraudulent/Misrepresenting Borrower

Where there are genuine indications of:

- False information.
- Document manipulation.
- Diversion of funds.
- Fraudulent activity.

the matter should be **escalated through the bank's appropriate investigation/compliance/legal channels**.
A BC/BF/DRA should not conduct an independent investigation beyond their authority.

PART III — HOW BC/BF SHOULD DEAL WITH DIFFICULT BORROWERS

BC/BF generally focus on **banking service, financial inclusion and facilitation**, rather than acting as enforcement agents.

25. Step 1 — Listen

Allow the borrower to explain:

- Why repayment/service is difficult.
- What happened.
- What they are disputing.
- What assistance they are seeking.

26. Step 2 — Understand the Reason

Determine whether the problem is:

- Temporary financial difficulty.
- Lack of understanding.
- Transaction problem.
- Documentation issue.
- Dispute.
- Genuine inability to repay.
- Unwillingness to cooperate.

27. Step 3 — Verify
Do not rely solely on statements.
Verify relevant information through authorized bank systems/processes.

28. Step 4 — Explain
Explain in simple language:

- Amount due where authorized to communicate it.
- Repayment schedule.
- Relevant banking procedure.
- Available legitimate options.
- Consequences of continued default as accurately authorized.

29. Step 5 — Facilitate
If there is a legitimate solution available within the BC/BF's role, facilitate it.
Examples:

- Repayment through authorized channels.
- Application for an appropriate service.
- Communication with the bank.
- Financial counselling.
- Submission of documents.

30. Step 6 — Escalate
If the issue requires bank approval or specialized intervention:
Refer it to the appropriate bank authority.
Do not promise something you cannot provide.

PART IV — HOW DRA SHOULD DEAL WITH DIFFICULT BORROWERS
A DRA has a different responsibility because the primary function is **recovery of legitimate bank dues**.

31. DRA's Basic Approach
Firm on the obligation, respectful toward the person.
A DRA should:

- Clearly communicate the outstanding dues.
- Understand the borrower's situation.
- Encourage repayment.
- Discuss authorized options.
- Document commitments.
- Escalate unresolved matters.

32. Never Use Harassment
Recovery does **not** mean:
❌ Threatening
❌ Abusing
❌ Intimidating
❌ Publicly humiliating
❌ Using violence
❌ Repeated inappropriate contact
❌ Threatening family members
❌ Disclosing debt information unnecessarily
The DRA must follow the bank's recovery policy and applicable regulatory requirements.

33. Negotiating With a Difficult Borrower
Use:
L-E-A-R-N
L — Listen
Let the borrower explain.
E — Empathize
Understand the genuine difficulty.
A — Assess
Verify the facts and repayment situation.
R — Resolve/Refer
Discuss authorized options or refer to the bank.
N — Notify
Explain the next step accurately.

34. Example — Borrower Says "I Cannot Pay"
Poor response
"If you don't pay, we will make your life difficult."
Professional response
"I understand that you are facing difficulty. The bank's records show the outstanding amount as ₹X. Let us discuss the repayment options that are available under the bank's policy. If a decision requires bank approval, I will guide you through the appropriate process."

35. Example — Borrower Says "Your Amount is Wrong"
Don't say:
"You are wrong."
Say:
"Let's verify the account details and identify exactly which amount you are disputing. If the matter requires bank-level review, it can be referred through the appropriate process."

36. Example — Borrower Becomes Abusive
Approach:

1. Stay calm.
2. Do not retaliate.
3. State that you are willing to discuss the matter respectfully.
4. If the behaviour continues, end the interaction safely.
5. Report/escalate according to bank procedures.

37. Example — Borrower Offers Partial Payment
The DRA should not personally decide:
"Okay, I'll accept ₹10,000 instead of ₹50,000 as full settlement."
Instead:

- Record/communicate the offer as appropriate.
- Explain that settlement decisions require **authorized bank approval**.
- Follow the bank's approved settlement process.

38. Do's for Dealing with Difficult Borrowers
✅ **DO**

- Listen patiently.
- Remain calm.
- Show empathy.
- Verify facts.
- Explain dues accurately.
- Use simple language.
- Maintain confidentiality.
- Be firm but respectful.
- Discuss only authorized options.
- Document communications.
- Escalate where necessary.
- Follow bank procedures.
- Maintain professional boundaries.

39. Don'ts for Dealing with Difficult Borrowers
❌ **DON'T**

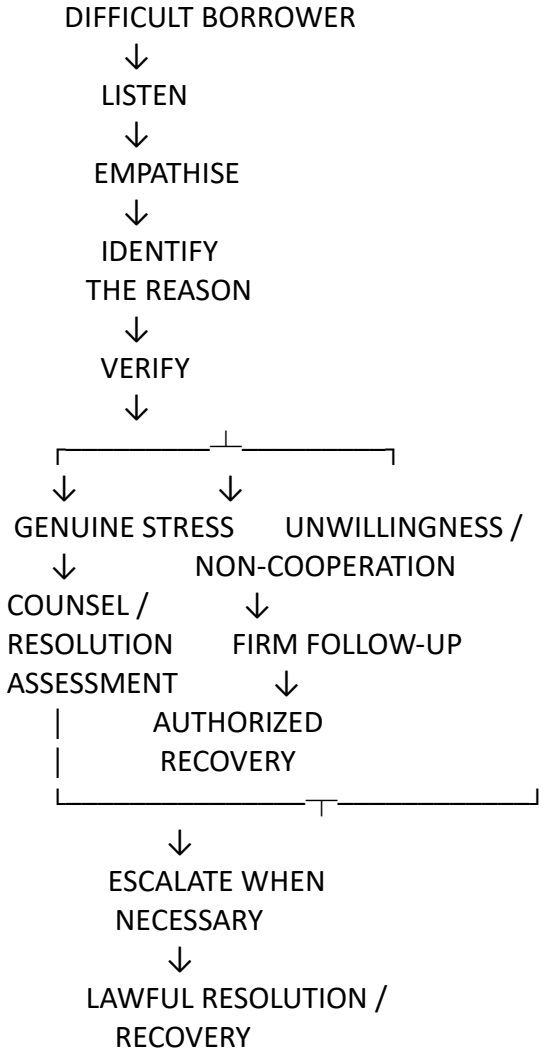
- Argue.
- Shout.
- Threaten.
- Harass.
- Humiliate.
- Use abusive language.
- Make false promises.
- Promise unauthorized settlement.
- Disclose the borrower's debt unnecessarily.
- Collect money into a personal account.

- Misrepresent legal consequences.
- Use force or intimidation.
- Take action beyond your authority.

40. BC/BF/DRA — Different Approaches

Situation	BC/BF	DRA
Customer doesn't understand loan	Educate	Explain repayment obligation
Temporary financial difficulty	Facilitate/counsel	Discuss authorized recovery options
Disputed dues	Verify/refer	Verify/refer
Angry borrower	Listen and de-escalate	Listen and de-escalate
Refusal to repay	Inform/refer	Firm lawful recovery follow-up
Settlement request	Refer to bank	Communicate only authorized settlement options
Fraud concern	Escalate	Escalate
Abusive behaviour	Maintain safety/escalate	Maintain safety/escalate
Legal enforcement	Not normally their decision	Follow bank's authorized process

41. Difficult Borrower Handling Framework



42. Key Principle: Separate the Person from the Problem

A borrower may be difficult, but the BC/BF/DRA should not make the interaction personal.

Attack the problem, not the person.

Instead of:

"You are an irresponsible borrower."

Say:

"There is an overdue amount on the account. Let's discuss what has caused the delay and what authorized options are available."

43. Five Golden Principles

1. Be soft with the person, firm with the facts.

2. Understand before judging.

3. Verify before making allegations.

4. Negotiate only within authority.

5. Recovery must never become harassment.

44. Exam-Ready Answer

A borrower is a person or organization that obtains credit from a bank and is responsible for repayment according to the agreed terms. Borrowers may include individuals, joint borrowers, farmers, MSMEs, sole proprietorships, partnership firms, companies, trusts, institutions and secured or unsecured borrowers. For recovery purposes, borrowers may also be classified according to their willingness and ability to repay, such as regular borrowers, temporarily stressed borrowers, financially distressed borrowers, unwilling borrowers and disputed borrowers.

While dealing with difficult borrowers, BC/BFs/DRAs should remain calm, listen carefully, show empathy, understand the reason for the difficulty, verify facts and communicate accurately. BC/BFs should facilitate appropriate banking services, financial counselling and communication with the bank within their authority. DRAs should clearly communicate legitimate dues, discuss only authorized repayment or settlement options and document the interaction. Matters beyond their authority must be escalated to the bank. No BC/BF/DRA should use threats, harassment, abuse, intimidation, public humiliation, unauthorized charges or false promises. Recovery should always be lawful, fair, respectful and consistent with bank policy and applicable regulatory requirements.

Easy formula

LISTEN → UNDERSTAND → VERIFY → EXPLAIN → NEGOTIATE WITHIN AUTHORITY → RESOLVE/ESCALATE → DOCUMENT → FOLLOW UP

Most important distinction

A difficult borrower is not necessarily a defaulter, and a defaulter is not necessarily a wilful defaulter. The reason for non-payment must be understood and verified before deciding the appropriate recovery approach.

Strategy for Recovery from Borrowers

Recovery from borrowers means the systematic process by which a bank seeks repayment of outstanding **principal, interest and other legitimate dues** from borrowers according to the loan agreement, bank policy and applicable law.

For a BC/BF/DRA, the objective is **not simply to force payment**. The objective is to achieve the **maximum lawful and sustainable recovery while treating the borrower fairly**.

Core principle:

Prevent default → Identify stress early → Contact → Understand → Counsel → Negotiate where authorized → Recover → Escalate/enforce when necessary

1. Objectives of Recovery

An effective recovery strategy should:

- Recover overdue amounts promptly.
- Prevent further deterioration of the account.
- Identify genuine financial difficulty.
- Help viable borrowers return to regular repayment.
- Minimize loss to the bank.
- Preserve the value of security where applicable.
- Reduce recovery costs and litigation where possible.
- Protect the bank's reputation.
- Treat borrowers fairly and respectfully.

2. First Strategy — Prevent Default

The best recovery strategy begins **before default occurs**.

The bank should properly assess:

- Borrower's income and cash flow.
- Existing liabilities.
- Credit history.
- Purpose of the loan.
- Repayment capacity.
- Business viability where applicable.
- Security/collateral where applicable.

Principle

Good lending is the first line of recovery.

3. Early Identification of Stress

Do not wait until the account becomes seriously overdue.

Early warning signals include:

- Missed or delayed instalments.
- Repeated cheque returns.
- Declining business activity.
- Irregular account operations.
- Reduced cash flow.
- Repeated requests for extensions.
- Deteriorating financial position.
- Failure to provide required information.
- Evidence of diversion or misuse of funds.

Early intervention gives the bank more recovery options.

4. Prompt Contact with the Borrower

When an overdue situation appears, contact the borrower through **authorized channels**.

The purpose is to understand:

- Why payment was missed.
- Whether the difficulty is temporary.
- Whether the borrower is willing to repay.
- Whether the borrower disputes the amount.
- What repayment capacity exists.

Important

Contact early, but do not harass.

5. Classify the Borrower

A useful recovery strategy is to classify the borrower based on:

A. Willing and able

Action: Encourage immediate regular repayment.

B. Willing but temporarily unable

Action: Counselling and assessment of permissible resolution/restructuring options.

C. Willing but seriously distressed

Action: Assess viability and appropriate bank-approved resolution/settlement options.
D. Able but unwilling
Action: Firm follow-up and appropriate enforcement/recovery measures.
E. Disputing the dues
Action: Verify the records and resolve/escalate the dispute.
F. Suspected fraud/wilful misconduct
Action: Escalate through the bank's appropriate investigation, compliance and legal processes.

6. Understand the Reason for Default
Do not treat every defaulter in the same way.
Possible reasons

- Temporary income loss.
- Business downturn.
- Crop failure or agricultural stress.
- Unexpected expenditure.
- Poor financial planning.
- Excessive borrowing.
- Dispute regarding the account.
- Unwillingness to pay.
- Fraudulent behaviour.

Key principle
Different causes require different recovery strategies.

7. Counselling the Borrower
Where the borrower is genuinely facing difficulty, counselling can help.
The borrower can be guided regarding:

- Outstanding dues.
- Repayment schedule.
- Financial discipline.
- Budgeting.
- Available legitimate options.
- Consequences of continued default.

The objective is to encourage **voluntary and sustainable repayment**.

8. Negotiate a Repayment Arrangement — Where Authorized
Where bank policy permits, a repayment arrangement may be discussed.
For example:

- Immediate payment of part of overdue dues.
- Regular repayment of future instalments.
- Other bank-approved arrangements.

Important
A DRA/BC/BF must **not independently promise concessions** that require bank approval.

9. Restructuring / Resolution for Genuine Cases

If the borrower is fundamentally viable but faces temporary financial stress, the bank may consider applicable **resolution/restructuring measures**, subject to prevailing RBI requirements and the bank's policy.

Possible measures may include:

- Modification of repayment schedule.
- Extension of repayment period.
- Other permitted restructuring/resolution measures.

Important

Restructuring must not be used merely to conceal or avoid proper recognition of financial stress.

10. Settlement / One-Time Settlement

In appropriate cases, the bank may consider a **compromise settlement/one-time settlement (OTS)** under its approved policy and applicable regulatory framework.

The borrower may be permitted to pay an approved settlement amount according to the terms.

BC/BF/DRA rule

Only the competent bank authority can approve a settlement where such approval is required.

An agent must never make an unauthorized promise such as:

"Pay ₹20,000 and I will close your ₹1 lakh loan."

11. Use Recovery Agents Properly

Banks may use **Direct Recovery Agents (DRAs)** for recovery activities.

A DRA should:

- Identify themselves appropriately.
- Communicate the dues accurately.
- Contact borrowers through permitted methods.
- Maintain confidentiality.
- Encourage repayment.
- Follow bank instructions.
- Document interactions.

A DRA must not use:

- Threats
- Abuse
- Harassment
- Violence
- Intimidation
- Public humiliation

12. Provide Convenient Repayment Channels

Recovery can improve when borrowers have convenient authorized methods of payment.

Depending on the facility, these may include:

- Branch payment.
- Internet banking.
- Mobile banking.
- UPI where applicable.
- Standing instructions/auto-debit.

- Other authorized digital channels.

Important
Payments should be made through **authorized bank channels**, not personal accounts of recovery agents.

13. Follow Up Systematically
Recovery should not depend on random telephone calls.
Maintain an organized follow-up system covering:

- Date of contact.
- Amount overdue.
- Promise to pay.
- Payment received.
- Next follow-up.
- Dispute raised.
- Escalation required.

14. Document Every Important Action
Documentation is critical.
Maintain appropriate records of:

- Notices.
- Communications.
- Repayment commitments.
- Payments.
- Settlement proposals.
- Restructuring decisions.
- Security-related actions.
- Legal proceedings.
- Recovery-agent activity.

Principle
If it is important, it should be properly recorded.

15. Escalate Where Necessary
If normal recovery efforts fail, the case may be escalated according to bank policy.
Possible escalation may include:
Branch/collection level → Senior bank authority → Recovery department → Legal department → Appropriate statutory/legal mechanism
The exact process depends on the nature of the loan and applicable law.

16. Enforcement of Security
For secured loans, the bank may enforce security where legally permissible.
Examples:

- Mortgage
- Hypothecation
- Pledge
- Other eligible security

Such action must follow the **applicable legal procedure**.

17. Legal Recovery

Where voluntary recovery and permitted resolution mechanisms do not succeed, the bank may use appropriate legal/statutory recovery mechanisms.

Depending on the case, these may include:

- **Debt Recovery Tribunals (DRTs)** where applicable.
- **SARFAESI Act** measures for eligible secured assets.
- Civil/legal proceedings where appropriate.
- Other applicable statutory mechanisms.

The bank should select the remedy appropriate to the nature of the debt and security.

18. Special Approach for Genuine Financial Difficulty

Suppose a borrower says:

"I want to repay, but my business has temporarily lost income."

The correct approach is not automatically to threaten legal action.

Instead:

Listen
↓
Verify financial difficulty
↓
Assess repayment capacity
↓
Consider permitted resolution options
↓
Agree on authorized arrangement
↓
Monitor repayment

19. Special Approach for an Able but Unwilling Borrower

Suppose:

The borrower has sufficient income/assets but repeatedly refuses to pay.

The strategy can become progressively firmer:

Reminder
↓
Personal/contact follow-up
↓
Demand/notice as applicable
↓
Authorized recovery action
↓
Settlement if approved
↓
Legal/security enforcement where applicable

Every step must remain **lawful and properly authorized**.

20. Special Approach for Disputed Dues

If the borrower says:
"The amount you are demanding is incorrect."
Do not immediately label the borrower as a defaulter who is avoiding payment.
Instead:

1. Verify bank records.
2. Identify the disputed amount.
3. Explain the verified position.
4. Correct genuine errors if identified.
5. Refer the dispute through the appropriate bank mechanism where necessary.

21. Special Approach for Agricultural Borrowers

Agricultural repayment may be affected by:

- Seasonal income.
- Crop cycles.
- Weather.
- Natural calamities.
- Market prices.

Therefore, recovery should consider applicable **RBI/government relief or restructuring measures** and the actual circumstances of the borrower.

22. Special Approach for MSME Borrowers

For MSMEs, examine:

- Business viability.
- Cash flow.
- Receivables.
- Inventory.
- Sales.
- Working capital.
- Temporary vs permanent stress.

A viable business experiencing a temporary cash-flow problem may require a different recovery strategy from a permanently unviable business.

23. Technology-Based Recovery

Banks can use technology for:

- Automated repayment reminders.
- SMS/email alerts.
- Digital payment links/channels.
- Collection dashboards.
- Overdue monitoring.
- Early-warning systems.
- Data analysis.

Technology should improve efficiency without compromising customer privacy or fair treatment.

24. Role of BC/BF in Recovery

Within their authorized role, BC/BFs may help by:

- Educating borrowers about repayment obligations.
- Giving appropriate reminders.
- Facilitating authorized repayment.
- Providing financial counselling.
- Communicating customer difficulties to the bank.
- Helping borrowers access appropriate banking channels.

They should not:

- Threaten borrowers.
- Make unauthorized settlement promises.
- Alter loan records.
- Collect unauthorized fees.
- Take recovery action beyond their authority.

25. Role of DRA in Recovery

The DRA's principal role is to support recovery through **lawful and authorized communication and follow-up**.

DRA should:

- Verify borrower/account information available to them.
- Communicate legitimate dues accurately.
- Understand the reason for default.
- Encourage repayment.
- Discuss only authorized options.
- Record commitments.
- Escalate disputes and difficult cases.
- Maintain confidentiality.

DRA should never:

❌ Threaten
❌ Abuse
❌ Intimidate
❌ Humiliate
❌ Use violence
❌ Publicly disclose debt information unnecessarily
❌ Collect money into a personal account
❌ Promise unauthorized settlement

26. Negotiation Strategy

A good recovery negotiation follows:

L — Listen

Understand the borrower.

E — Empathize

Recognize genuine difficulty.

A — Assess

Verify facts and repayment capacity.

R — Review options

Identify only authorized options.

N — Negotiate

Discuss a workable repayment arrangement within authority.

F — Follow up

Record and monitor the agreed action.

27. Recovery Should Be Graduated

A good recovery strategy generally becomes progressively stronger rather than immediately punitive.

REGULAR REPAYMENT
↓
REMINDER
↓
EARLY FOLLOW-UP
↓
COUNSELLING
↓
REPAYMENT NEGOTIATION
↓
RESOLUTION / RESTRUCTURING
WHERE APPROPRIATE
↓
SETTLEMENT WHERE APPROVED
↓
FORMAL RECOVERY ACTION
↓
SECURITY / LEGAL ACTION
WHERE APPLICABLE

28. Do's in Recovery

✅ **Do**

- Start recovery efforts early.
- Verify facts.
- Understand the reason for default.
- Communicate clearly.
- Be firm but respectful.
- Offer only authorized options.

- Encourage voluntary repayment.
- Maintain proper records.
- Protect confidentiality.
- Escalate disputes.
- Follow bank policy.
- Follow applicable law and regulatory requirements.

29. Don'ts in Recovery

❌ **Don't**

- Harass the borrower.
- Threaten or intimidate.
- Abuse or insult.
- Publicly shame the borrower.
- Misrepresent legal consequences.
- Make false settlement promises.
- Collect money into a personal account.
- Hide or alter information.
- Disclose debt information unnecessarily.
- Take unauthorized possession of property.
- Use force.
- Exceed delegated authority.

30. Recovery Strategy — Decision Matrix

Borrower condition	Strategy
Regular payer	Normal monitoring
First/occasional delay	Reminder + follow-up
Temporary difficulty	Counselling + appropriate resolution assessment
Viable business under stress	Appropriate restructuring/resolution assessment
Willing but unable	Explore permitted repayment/resolution options
Able but unwilling	Firm lawful recovery
Disputed dues	Verify + grievance/dispute resolution
Repeated avoidance	Escalated recovery process
Fraud/misconduct concern	Appropriate investigation/escalation
No voluntary resolution	Legal/security enforcement where applicable

31. Key Principles of Successful Recovery

1. Prevention
Prevent default through sound lending.

2. Early action
Identify and address stress quickly.

3. Classification
Understand the borrower's ability and willingness to pay.

4. Communication
Maintain professional contact.

5. Counselling
Help genuine borrowers understand their options.

6. Negotiation
Find legitimate solutions within authority.

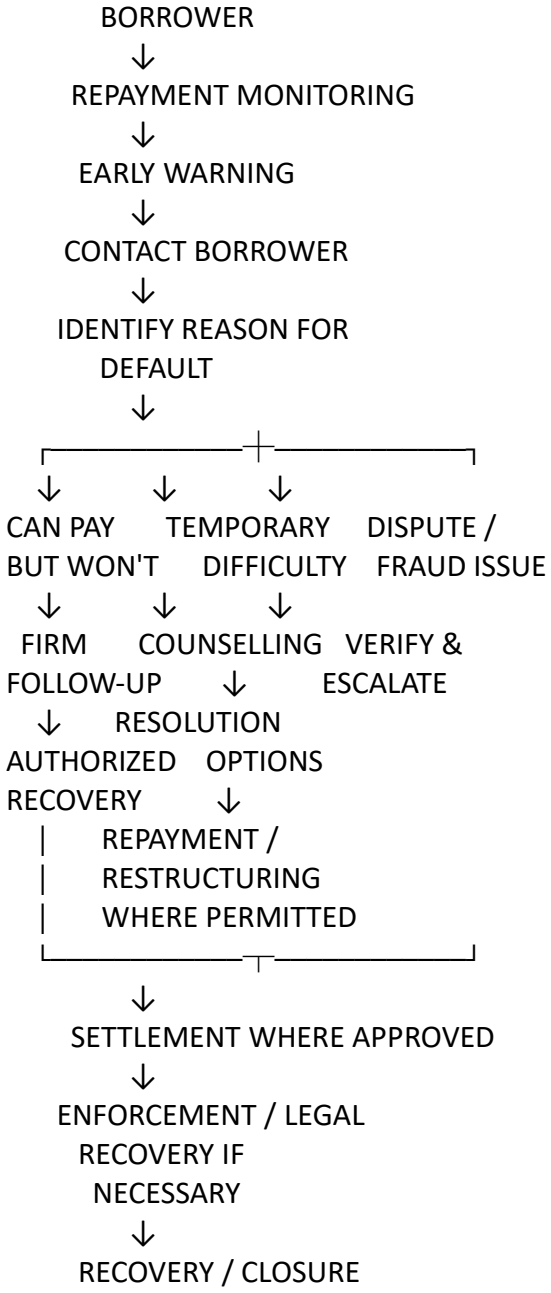
7. Documentation
Record all important actions.

8. Escalation
Refer matters beyond authority.

9. Enforcement
Use lawful recovery mechanisms when necessary.

10. Fairness
Protect borrower dignity and rights throughout the process.

32. Complete Recovery Model



33. Exam-Ready Answer

The strategy for recovery from borrowers should be systematic, timely, borrower-sensitive and legally compliant. It begins with sound credit appraisal and proper documentation, followed by continuous monitoring and identification of early warning signals. When default occurs, the bank/authorized recovery personnel should contact the borrower promptly, understand the reason for non-payment, verify the facts and classify the borrower according to willingness and ability to repay. Genuine borrowers facing temporary difficulties may be considered for counselling and appropriate resolution/restructuring measures, subject to applicable rules and bank policy. Voluntary repayment and authorized settlement may be encouraged. If the borrower is unwilling to repay or normal recovery efforts fail, the bank may take appropriate recovery, security-enforcement or legal measures. BC/BFs and DRAs must act strictly within their authority and must

not use threats, harassment, intimidation, abuse, unauthorized charges or false promises. Proper documentation, confidentiality, customer protection and grievance mechanisms should be maintained throughout the recovery process.

Easy Formula for Examination

PREVENT → MONITOR → IDENTIFY → CONTACT → UNDERSTAND → COUNSEL → NEGOTIATE → RESOLVE → RECOVER → ENFORCE → CLOSE

One important distinction

"Willing but unable" should be approached differently from "able but unwilling."
The first may require counselling and an appropriate resolution strategy; the second may require firmer recovery measures, always within the law and bank's authorized process.

Fair Practice Code for DRA – Steps / Process

For a **Direct Recovery Agent (DRA)**, the Fair Practice Code means that recovery of bank dues must be conducted **lawfully, fairly, transparently, respectfully and without harassment or intimidation**.
The DRA acts on behalf of the bank, so the recovery process should protect both the bank's legitimate recovery interest and the borrower's dignity and rights.

Easy formula:

Identify → Verify → Inform → Contact → Understand → Negotiate → Document → Follow-up → Escalate

Step-by-Step Process

1. Receive Authorized Recovery Assignment

The DRA should receive the recovery case from the bank through the **prescribed process**.
The DRA should know:

- Borrower's name/contact details as authorized.
- Loan/account reference.
- Outstanding dues.
- Nature of default.
- Scope of authority.
- Applicable recovery instructions.

Do not act on an unauthorized assignment.

2. Verify the Borrower's and Account Details

Before contacting the borrower, verify the information available to you.
Check:

- Correct borrower.
- Correct loan/account.
- Amount outstanding.
- Overdue amount.
- Relevant repayment information.
- Any instructions or restrictions from the bank.

Never demand money based on unverified information.

3. Carry Proper Identification
When contacting/meeting the borrower, the recovery agent should follow the bank's prescribed identification requirements.
The borrower should be able to understand:

- Who the person is.
- Which bank they represent.
- Why they are contacting the borrower.

This prevents impersonation and builds transparency.

4. Contact the Borrower Through Permitted Channels
The DRA should use the **contact methods and timings permitted under applicable RBI/bank requirements**.
Communication should be:

- Professional.
- Courteous.
- Non-threatening.
- Relevant to the recovery matter.

Repeated or inappropriate contact that amounts to harassment must be avoided.

5. Explain the Purpose of Contact
The borrower should be clearly informed that the contact relates to an outstanding bank obligation.
The DRA should accurately communicate, as authorized:

- Loan/account reference.
- Amount due.
- Nature of overdue.
- Relevant repayment requirement.

The DRA should not exaggerate or misrepresent the borrower's liability.

6. Listen to the Borrower
Allow the borrower to explain:

- Why payment was delayed.
- Whether they are facing financial difficulty.
- Whether they dispute the amount.
- Whether payment has already been made.
- Whether there is a genuine transaction/account issue.

Important:
Do not assume that every overdue borrower is unwilling to pay.

7. Verify Any Dispute
If the borrower says:
"I have already paid."
or
"The amount demanded is incorrect."
the DRA should **not argue**.
Instead:

1. Obtain the relevant information within the permitted process.

2. Check/communicate the matter through the bank's prescribed system.
3. Escalate the dispute where necessary.
4. Avoid demanding payment based on disputed/unverified information.

8. Understand the Reason for Default

The borrower may be:

- Willing but temporarily unable to pay.
- Financially distressed.
- Disputing the dues.
- Unwilling to cooperate.
- Facing a temporary business problem.
- Experiencing agricultural/seasonal difficulties.

Understanding the reason helps determine the appropriate **lawful recovery approach**.

9. Discuss Repayment Options Within Authority

Where permitted by the bank, the DRA may discuss:

- Immediate repayment.
- Repayment of overdue amounts.
- An authorized repayment arrangement.
- Other bank-approved options.

Critical rule

A DRA must never promise a concession, waiver, restructuring or settlement that they are not authorized to approve.

10. Obtain Payment Only Through Authorized Channels

If the borrower agrees to pay, payment should be made through the **bank's authorized payment channels/procedure**.

The DRA should not:

- Collect money into a personal bank account.
- Ask for cash without following the bank's authorized process.
- Keep customer money.
- Give unofficial receipts.

11. Provide Proper Acknowledgement/Receipt

Where payment is received through an authorized mechanism, the borrower should receive the appropriate:

- Receipt.
- Transaction reference.
- Payment acknowledgement.

The borrower should be able to establish that payment has been made.

12. Maintain Confidentiality
The DRA must protect the borrower's information.
Debt-related information should **not be unnecessarily disclosed** to:

- Neighbors.
- Friends.
- Relatives.
- Colleagues.
- Employers.
- Other unrelated persons.

Recovery should be conducted in a manner that respects borrower privacy.

13. No Harassment or Intimidation
This is one of the most important elements of fair recovery.
The DRA must not use:

- Threats.
- Abuse.
- Violence.
- Intimidation.
- Humiliation.
- Public shaming.
- Offensive language.
- Coercive tactics.

Remember:
Firm recovery is permitted; harassment is not.

14. Respect the Borrower's Dignity
The borrower must be treated:

- Politely.
- Professionally.
- Fairly.
- With dignity.

A borrower who has defaulted does not lose their basic rights or dignity.

15. Don't Misrepresent Legal Consequences
The DRA should not make false statements such as:
"You will definitely be arrested tomorrow."
or
"The police will immediately seize your property."
unless there is a genuine legal basis and the statement is properly authorized and accurately communicated.
Rule:
Explain legal consequences accurately—never use them as a threat.

16. Record the Interaction

The DRA should maintain records according to the bank's prescribed system.
Records may include:

- Date/time of contact.
- Mode of contact.
- Communication.
- Borrower's response.
- Payment commitment.
- Payment received.
- Dispute raised.
- Escalation.

Proper records protect both the bank and the borrower.

17. Follow Up Professionally

If the borrower promises payment:

- Record the commitment.
- Follow the bank's prescribed follow-up process.
- Do not make excessive or inappropriate contacts.
- Update the bank/system as required.

18. Escalate When Necessary

The DRA should refer the matter to the bank when it involves:

- Disputed dues.
- Fraud concerns.
- Legal issues.
- Settlement requiring approval.
- Restructuring requiring approval.
- Complaints against the recovery agent.
- Situations beyond the DRA's authority.
- Threats or safety issues.

19. Handle Complaints Properly

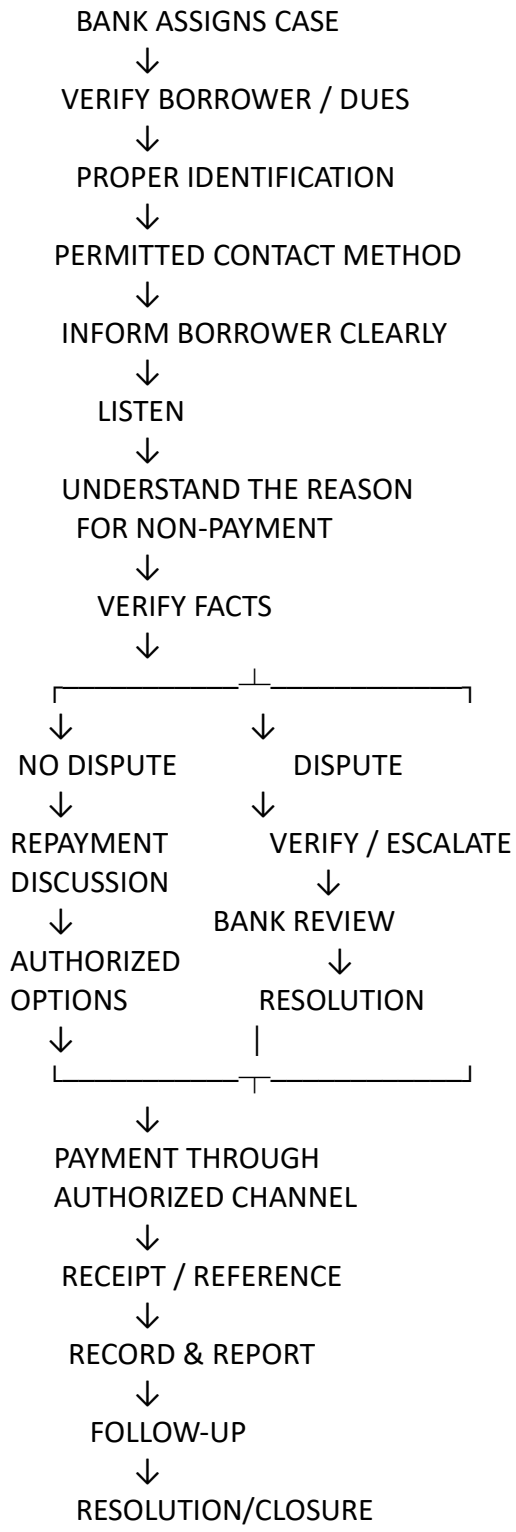
If the borrower complains about the recovery process:
Listen → Record → Explain → Escalate → Provide appropriate reference/information
Do not retaliate against a borrower for making a complaint.

20. Close/Update the Case

Once the bank's recovery objective has been achieved or the case has been otherwise resolved:

- Update the bank/system.
- Record the payment or resolution.
- Stop unnecessary recovery contact.
- Preserve required documentation.

Fair Practice Code — Complete Flow



What a DRA Must Never Do

❌ Don't	Why
Threaten the borrower	Unfair/coercive
Abuse or insult	Violates professional conduct
Publicly shame the borrower	Violates dignity/privacy
Harass through repeated inappropriate contact	Unfair recovery practice
Threaten family members	Unacceptable
Disclose debt unnecessarily	Confidentiality concern
Collect money into a personal account	Unsafe/unauthorized
Promise an unauthorized settlement	Beyond authority
Misrepresent legal consequences	Misleading
Hide the identity of the bank/agent	Lack of transparency
Retaliate against complaints	Unfair treatment
Take action beyond authority	Compliance/legal risk

Fair Practice Code — 10 Key Principles

For examination purposes, remember:

1. **Proper authorization**
2. **Correct identification**
3. **Transparent communication**
4. **Respectful contact**
5. **Accurate information**
6. **Opportunity to explain/dispute**
7. **Lawful negotiation**
8. **No harassment or intimidation**
9. **Confidentiality and privacy**
10. **Proper documentation and grievance escalation**

Exam-Ready Answer

The Fair Practice Code for a DRA involves receiving an authorized recovery assignment, verifying the borrower and outstanding dues, properly identifying oneself, contacting the borrower through permitted channels, informing the borrower clearly about the outstanding obligation, listening to the borrower's explanation, verifying disputes, understanding the reason for default, discussing only authorized repayment options, accepting payments only through authorized channels, providing appropriate acknowledgement/receipt, maintaining confidentiality, documenting all recovery activities and following up appropriately. Matters beyond the DRA's authority must be escalated to the bank. A DRA must not use harassment, threats, intimidation, abuse, violence, public humiliation, unauthorized charges, false promises or misleading statements about legal consequences. Recovery must be conducted fairly, respectfully, transparently and in accordance with applicable RBI requirements, law and the bank's recovery policy.

One-line memory aid

AUTHORISE → VERIFY → IDENTIFY → INFORM → LISTEN → ASSESS → NEGOTIATE → COLLECT → RECORD → FOLLOW UP

And throughout the process: ***No harassment + No intimidation + No deception + No unauthorized action.***

Farmers' Clubs and SHGs: How BC/BF/DRA Can Promote Banking Activities

Farmers' Clubs (FCs) and **Self-Help Groups (SHGs)** are important community-based channels for expanding formal banking in rural and underserved areas. RBI's BC/BF framework specifically recognizes **Farmers' Clubs and SHGs among the entities that banks may use under the Business Facilitator model**, with activities including borrower identification, loan-application facilitation, financial awareness, SHG/JLG promotion and nurturing, post-sanction monitoring and recovery follow-up. (Reserve Bank of India)

NABARD's SHG-Bank Linkage Programme is designed to connect SHGs with formal financial institutions, while the SHG model emphasizes regular meetings, savings, internal lending, timely repayment and proper books of account. (NABARD)

1. What is a Farmers' Club?

A **Farmers' Club** is a group of farmers/community members organized to improve agricultural and rural development through activities such as:

- Sharing agricultural knowledge.
- Improving access to financial services.
- Promoting better farming practices.
- Facilitating interaction with banks and other institutions.
- Encouraging collective economic activities.

Farmers' Clubs have also been recognized within the RBI's Business Facilitator framework as intermediaries that banks may use for facilitation activities.

Banking importance

A Farmers' Club can act as a **bridge between farmers and the formal banking system**.

2. What is an SHG?

SHG = Self-Help Group.

An SHG is a small voluntary group, generally formed by people with common socio-economic interests, who:

- Meet regularly.
- Save regularly.
- Maintain group records.
- Undertake internal lending.
- Develop financial discipline.
- May obtain bank credit through linkage.

NABARD identifies regular meetings, regular savings, internal lending, timely repayment and proper books of accounts—the **Panchsutras**—as important characteristics of well-functioning SHGs. (NABARD)

3. Why Farmers' Clubs and SHGs Are Important for Banks

They help banks reach customers who may otherwise remain outside the formal banking system.
They can help promote:

- Savings.
- Bank accounts.
- Credit.
- Insurance.
- Pension.
- Digital payments.
- Financial literacy.
- Government-linked financial services.
- Responsible borrowing.
- Regular repayment.

The SHG-Bank Linkage Programme has specifically been used to connect underserved households with formal finance. (NABARD)

4. Role of BC/BF With Farmers' Clubs and SHGs

The BC/BF should act as a **facilitator, educator and bridge between the group and the bank**.
RBI's framework specifically includes activities such as borrower identification, preliminary loan-application processing, financial education, debt counselling, application submission, SHG/JLG promotion and nurturing, post-sanction monitoring and recovery follow-up. (Reserve Bank of India)

5. Step 1 — Identify Existing Groups

BC/BF should identify:
Farmers' Clubs

- Active farmer groups.
- Agricultural producer groups.
- Local community organizations.

SHGs

- Existing SHGs.
- New groups requiring support.
- Groups linked to banks.
- Groups requiring financial-literacy support.

The objective is to understand **which groups are active and what their financial needs are**.

6. Step 2 — Build a Relationship with the Group

The BC/BF should:

- Attend group meetings where appropriate.
- Introduce the bank and its services.
- Understand the group's activities.
- Build trust.
- Explain how formal banking can benefit members.

Important
First build trust; then promote banking products.

7. Step 3 — Conduct Financial Literacy Sessions

BC/BFs can organize simple group-level financial-literacy sessions on:

Savings

- Importance of saving.
- Bank accounts.
- Deposits.
- Interest.

Credit

- Loan eligibility.
- Interest.
- Repayment.
- Consequences of default.
- Responsible borrowing.

Insurance

- Purpose of insurance.
- Premium.
- Coverage.
- Claim awareness.

Pension

- Importance of retirement savings.
- Relevant pension products/schemes.

Digital banking

- UPI.
- QR payments.
- Cards.
- Mobile banking.
- ATM/Micro-ATM.

8. Step 4 — Promote Savings

The BC/BF should encourage members to develop a **regular savings habit**.

For SHGs, the group can be encouraged to maintain:

Regular meetings → Regular savings → Internal lending → Timely repayment → Proper records

This aligns with the Panchsutras approach highlighted by NABARD. (NABARD)

9. Step 5 — Facilitate Bank Accounts

Where authorized, the BC/BF can facilitate:

- SHG account opening.
- Individual member account opening.
- KYC processes.
- Account activation/use.
- Digital banking access.

RBI guidance also provides that BCs deployed by banks may be authorized to open SHG savings accounts subject to applicable BC guidelines and the bank's Board-approved policy. Importantly, opening savings accounts for every individual member is not to be made a prerequisite for SHG credit linkage. (Reserve Bank of India)

10. Step 6 — Identify Credit Needs

The BC/BF should understand the group's genuine financial requirements.

Farmers' Club

Possible needs:

- Crop finance.
- KCC.
- Farm equipment.
- Irrigation.
- Dairy.
- Poultry.
- Fisheries.
- Other agricultural activities.

SHG

Possible needs:

- Micro-enterprise.
- Livelihood activity.
- Working capital.
- Small business.
- Agriculture/allied activities.

The BC/BF should **identify and facilitate**, not guarantee loan approval.

11. Step 7 — Facilitate Loan Applications

The BC/BF may, within the authorized scope:

1. Identify potential borrowers.
2. Understand the proposed activity.
3. Help collect required information.
4. Assist with preliminary processing.
5. Verify primary information where authorized.
6. Forward the application to the bank.
7. Help the applicant understand the next step.

RBI expressly lists these types of facilitation activities under the BF model. (Reserve Bank of India)

12. Step 8 — Promote Responsible Borrowing

BC/BF should teach groups:

Borrow for a productive and suitable purpose → Understand the cost → Repay on time → Avoid excessive debt.

They should discourage:

- Unnecessary borrowing.
- Multiple unauthorized loans.
- Borrowing merely to repay other debts without a viable plan.
- Misuse/diversion of loan funds.

13. Step 9 — Encourage Digital Banking

BC/BF can demonstrate:

- UPI.
- QR payments.
- Debit cards.
- ATM use.
- Micro-ATM.
- AePS where applicable.
- Mobile banking.

Important security education

Teach members:

Never share OTP, UPI PIN, ATM PIN or password with anyone.

14. Step 10 — Promote Insurance and Pension Awareness

Group meetings are an efficient way to explain appropriate:

- Life insurance.
- Accident insurance.
- Pension products/schemes.
- Other applicable social-security products.

The BC/BF should explain **features, costs, eligibility and important conditions** rather than pressure members into purchasing products.

15. Step 11 — Post-Sanction Monitoring

After a loan is sanctioned, BC/BF activities may include appropriate:

- Follow-up.
- Monitoring.
- Handholding.
- Communication with the bank.
- Understanding emerging problems.

RBI's BC/BF framework specifically includes **post-sanction monitoring and monitoring/handholding of SHGs/JLGs/Credit Groups** within the facilitation framework. (Reserve Bank of India)

16. Step 12 — Promote Timely Repayment

BC/BF can educate borrowers about:

- Due dates.
- Instalments.
- Interest.
- Consequences of default.
- Authorized repayment channels.

The objective is to create:

Credit discipline → Good repayment → Better future access to finance

17. Role of DRA With Farmers' Clubs and SHGs

The DRA's role is **different from that of the BC/BF**.

A DRA's primary function is recovery of **outstanding bank dues**, not general financial-inclusion promotion.

When dealing with a Farmers' Club or SHG borrower/group, the DRA should:

- Communicate legitimate outstanding dues.
- Explain repayment requirements accurately.
- Listen to the reason for default.
- Identify genuine financial difficulty.
- Discuss only authorized repayment options.
- Refer restructuring/settlement requests to the bank where approval is required.
- Record commitments.
- Follow up professionally.

18. DRA and a Difficult SHG/Farmers' Group

Suppose an SHG has missed repayment because members have experienced temporary income difficulties.

The DRA should **not immediately threaten the entire group**.

Instead:

Step 1

Listen to the group's explanation.

Step 2

Verify the account and outstanding amount.

Step 3

Understand whether the problem is temporary or persistent.

Step 4

Communicate legitimate repayment obligations.

Step 5

Discuss only authorized options.

Step 6

Refer any restructuring/settlement request to the competent bank authority.

Step 7

Document the interaction.

19. What BC/BF Should NOT Do with Groups

❌ Guarantee loan approval.
❌ Force members to purchase products.
❌ Collect unauthorized fees.
❌ Misrepresent interest rates or charges.
❌ Ask for OTP/PIN/UPI PIN/password.
❌ Manipulate applications.
❌ Favour one member unfairly.
❌ Misuse group savings.
❌ Disclose confidential financial information.

20. What DRA Should NOT Do with Groups

❌ Threaten the entire group.
❌ Publicly shame defaulters.
❌ Abuse group members.
❌ Threaten relatives or neighbors.
❌ Disclose individual debt unnecessarily.
❌ Make unauthorized settlement promises.
❌ Collect money into personal accounts.
❌ Use force or intimidation.
❌ Misrepresent legal consequences.

21. Farmers' Club — Banking Promotion Strategy

FARMERS' CLUB
↓
Understand farmer needs
↓
Financial awareness
↓
Savings / bank accounts
↓
Credit need identification
↓
KCC / farm finance /
allied activity finance
↓
Loan application facilitation
↓
Bank appraisal & sanction
↓
Post-sanction support
↓

Timely repayment
↓
Strong bank relationship

22. SHG — Banking Promotion Strategy

SHG
↓
Regular meetings
↓
Regular savings
↓
Internal lending
↓
Proper bookkeeping
↓
Bank account linkage
↓
Credit assessment
↓
Bank credit linkage
↓
Livelihood / enterprise activity
↓
Regular repayment
↓
Repeat/appropriate bank finance

This savings-and-credit discipline is central to the SHG-Bank Linkage approach. (NABARD)

23. Difference in Approach

Aspect	**Farmers' Club**	**SHG**
Main focus	Agriculture/rural development	Savings, credit and livelihood
Members	Mainly farmers/rural participants	Members sharing common socio-economic interests
Banking opportunity	Agricultural credit, savings, insurance, digital banking	Savings, credit linkage, insurance, pension, digital banking
BC/BF role	Agricultural finance awareness and facilitation	Group nurturing, savings/credit linkage and financial literacy
DRA role	Recovery from farmer borrowers	Recovery of authorized outstanding group/member dues
Key objective	Improve access to agricultural finance	Financial inclusion and collective financial discipline

24. Group Meetings as a Banking Channel
A BC/BF can use a group meeting as a **mini financial-literacy platform**.
Example 30-minute session
5 minutes:
Ask about members' financial needs.
5 minutes:
Explain savings.
5 minutes:
Explain responsible credit.
5 minutes:
Explain insurance/pension.
5 minutes:
Demonstrate digital payments/fraud prevention.
5 minutes:
Answer questions and explain how to access the bank.
This is more effective than simply distributing product brochures.

25. How to Build Trust With Farmers' Clubs and SHGs
1. Respect the group
Do not treat members as merely prospective borrowers.
2. Be transparent
Explain:

- Interest.
- Charges.
- Eligibility.
- Repayment.
- Important conditions.

3. Don't promise what the bank has not approved
Especially:

- Loan sanction.
- Loan amount.
- Settlement.
- Waiver.

4. Use local language
5. Encourage questions
6. Protect confidentiality
7. Follow up
8. Keep commitments

26. How BC/BF Can Promote Financial Inclusion Through Groups
The process is:
Group identification → Trust building → Financial literacy → Account opening → Savings → Credit assessment → Loan facilitation → Digital banking → Insurance/pension awareness → Repayment discipline → Long-term banking relationship

27. Important Role of NABARD

NABARD has played an important role in the development and support of the **SHG-Bank Linkage Programme** and in capacity building of stakeholders involved in SHGs. It has also supported SHG promotion through institutions including Farmers' Clubs, SHG federations and other promoting institutions. (NABARD)

This makes Farmers' Clubs and SHGs particularly valuable **community-level bridges between rural people and formal financial institutions**.

28. Golden Rules for BC/BF/DRA

BC/BF

Identify → Educate → Facilitate → Connect → Support → Monitor

DRA

Inform → Listen → Verify → Negotiate within authority → Recover lawfully → Record → Follow up

All three

Trust + Transparency + Respect + Confidentiality + Compliance

29. Exam-Ready Answer

Farmers' Clubs and Self-Help Groups are important community-based channels for promoting financial inclusion and connecting rural people with formal banking institutions. RBI's Business Facilitator framework recognises Farmers' Clubs and SHGs among the entities that banks may use for facilitation activities such as borrower identification, preliminary processing of loan applications, financial awareness, money and debt counselling, promotion and nurturing of SHGs/JLGs, post-sanction monitoring and recovery follow-up.

BC/BFs can deal with Farmers' Clubs and SHGs by building relationships, conducting financial-literacy programmes, promoting savings and bank accounts, identifying genuine credit needs, facilitating loan applications, explaining banking products, promoting digital payments, insurance and pension awareness, assisting with documentation, and providing post-sanction support within their authority. They should encourage responsible borrowing and timely repayment and must not guarantee loan approval or mis-sell products.

DRAs have a narrower role: they deal with Farmers' Clubs/SHGs primarily when there are outstanding bank dues. They should communicate the legitimate dues, listen to the reason for default, verify disputes, discuss only authorized repayment options, document commitments and escalate matters requiring bank approval. They must not use threats, harassment, intimidation, public humiliation or unauthorized collection methods. Thus, Farmers' Clubs and SHGs can become effective last-mile channels for savings, credit, insurance, pension, digital banking and financial literacy, while BC/BFs act mainly as facilitators and DRAs act as lawful recovery agents.

One-line memory aid

Farmers' Clubs = Agriculture + Community + Banking Linkage

SHGs = Savings + Credit + Collective Financial Discipline

BC/BF = Facilitate + Educate + Connect

DRA = Recover + Negotiate + Protect Dignity

How BC/BF Can Find People and Convert Them into Bank Customers in Suburban and Rural Areas

The most effective approach is **not simply "selling bank products."** It is to identify people who have a genuine financial need, educate them, connect them with the appropriate bank service and then maintain the relationship.

RBI's BC/BF framework specifically recognizes activities such as **identification of borrowers, awareness about savings and other products, money/debt counselling, processing and submission of applications,**

promotion/nurturing of SHGs/JLGs, post-sanction monitoring and recovery follow-up as facilitation activities. (Reserve Bank of India)
NABARD's experience with SHG-linked BC models also shows the value of using **trusted community members** as last-mile banking agents; its Bank Sakhi model has taken ICT-based banking services to rural households through trained SHG members. (NABARD)

1. Start With Area Mapping
Before searching for customers, the BC/BF should prepare a **village/ward-wise customer map**.
Divide the territory into:

- Villages
- Hamlets
- Panchayats
- Suburban settlements
- Markets
- Industrial areas
- Agricultural clusters
- Fishing communities
- Tribal/remote settlements where applicable
- Construction-worker/local Labour clusters
- Small-business clusters

Create a simple database

Area	Households	Existing bank users	Unbanked/underbanked	Farmers	Traders	SHGs	MSMEs	Credit needs
Village A	500	380	120	180	35	12	20	High
Village B	350	250	100	110	25	8	12	Medium

This prevents random customer hunting.

2. Find the "Financially Underserved"
Don't look only for people who have **no bank account**.
There are several categories:
A. Completely unbanked
No formal bank account.
B. Underbanked
Has an account but rarely uses formal banking.
C. Banked but cash-dependent
Has an account but conducts most transactions in cash.
D. Credit-dependent
Uses informal lenders despite potentially needing formal credit.
E. Multiple-borrowing customers
Has loans from several sources and needs responsible debt management.
F. Digital-excluded customers
Have bank accounts but don't know how to use digital banking.
G. Savings-potential customers

Have regular income but save outside the formal banking system.
These are all potential financial-inclusion customers.

3. Use Community Institutions as Your Entry Point
Instead of approaching thousands of individuals one by one, start with **organized groups**.
Useful channels

- SHGs
- Farmers' Clubs
- JLGs
- Cooperatives
- Farmer organizations
- Small-trader associations
- Market associations
- Village/community organizations
- Panchayat/community networks
- Local livelihood groups
- Existing bank customers who can refer others

RBI's framework itself recognizes SHGs, Farmers' Clubs, cooperatives, community-based organizations, well-functioning Panchayats and other rural institutions as possible channels for BF activities. (Reserve Bank of India)

4. Use SHGs as a Major Customer-Discovery Channel
SHGs are particularly valuable because they already have:

- Regular meetings.
- Savings behaviour.
- Group records.
- Existing relationships.
- Community trust.
- Potential credit requirements.

NABARD reports that SHG-Bank Linkage has become a major channel for connecting rural households with formal finance. (NABARD)
BC/BF can approach:
SHG → Group meeting → Financial-literacy session → Identify individual/group needs → Facilitate banking

5. Identify Farmers Through Agricultural Networks
For rural areas, identify:

- Farmers' Clubs.
- Farmer groups.
- Agricultural input dealers.
- Agricultural markets.
- Dairy groups.
- Fisheries groups.
- Poultry groups.
- Farmer-producer organizations where applicable.
- Agricultural extension networks.

Then identify genuine needs such as:

- Savings.
- KCC.
- Crop finance.
- Farm equipment.
- Irrigation.
- Dairy.
- Fisheries.
- Agricultural insurance.
- Pension/insurance.
- Digital payments.

6. Find Small Traders

In suburban and rural markets, physically map:

- Grocery shops.
- Medical shops.
- Small restaurants.
- Tea shops.
- Tailors.
- Repair shops.
- Mobile shops.
- Vegetable/fruit sellers.
- Auto/taxi operators.
- Small manufacturers.
- Service businesses.

Ask:

"How do you currently receive payments, save money and finance your business?"

This identifies banking needs without immediately trying to sell a product.

7. Find Micro and Small Enterprises

Look for:

- Workshops.
- Small factories.
- Home-based businesses.
- Food-processing units.
- Handicrafts.
- Garment units.
- Repair businesses.
- Rural service providers.

Potential needs may include:

- Current accounts.
- Digital collections.
- Working capital.
- Term finance.
- Equipment finance.

- Insurance.

The **bank**, not the BC/BF, determines credit eligibility and sanction according to its procedures.

8. Identify People with Regular Cash Flows

Some people have regular income but may not use formal banking effectively.

Examples:

- Salaried workers.
- Pensioners.
- Self-employed persons.
- Small traders.
- Agricultural households.
- Domestic/service workers.
- Gig/contract workers.
- Local transport workers.

The conversation should begin with:

"How do you receive, save and send your money?"

rather than:

"Do you want a loan?"

9. Identify Existing Customers Who Are Under-Served

This is one of the easiest opportunities.

A person may already have a savings account but not use:

- Debit card.
- UPI.
- Mobile banking.
- Insurance.
- Pension.
- Recurring deposits.
- Appropriate credit facilities.

Therefore:

Customer acquisition is not only about finding new customers; it is also about activating and deepening existing relationships.

10. Conduct Door-to-Door Financial Mapping

BC/BF can conduct **ethical financial-needs surveys** through approved processes.

Ask simple questions such as:

1. Do you have a bank account?
2. Where do you normally save?
3. How do you receive income?
4. How do you make payments?
5. Do you use UPI/ATM?
6. Do you have insurance?
7. Do you have pension coverage where relevant?
8. Do you currently have loans?
9. Do you borrow from informal sources?

10. Do you have a future financial requirement?

Don't ask for unnecessary confidential information.

Never collect:

- OTP
- UPI PIN
- ATM PIN
- Passwords

for customer prospecting.

11. Hold "Banking Camps"

Organise periodic camps with the bank's approval/support.

Camp topics

Morning:

Account and KYC awareness

Next:

Savings and digital banking

Next:

Credit and responsible borrowing

Next:

Insurance and pension

Next:

Fraud awareness

Finally:

Individual queries and application facilitation

12. Use Demonstration Instead of Lectures

People often learn banking better by **seeing it performed**.

For example:

Digital banking camp

Show:

Open banking app → Check balance → Scan QR → Verify recipient → Make payment → Receive confirmation

Then explain:

Never share OTP or UPI PIN.

13. Use Local Language

A BC/BF should communicate in the language customers understand best.

Use:

- Local examples.
- Simple words.
- Familiar financial situations.
- Visual demonstrations.

Avoid unnecessary banking jargon.

14. Build a Referral Network

Create an ethical **community referral network** through:

- Existing customers.
- SHGs.
- Farmers' Clubs.
- Local community organizations.
- Traders' associations.
- Cooperatives.
- Other permitted community institutions.

The objective is:

One satisfied customer → trusted introduction → new customer

Do not encourage customers to make misleading referrals or collect unauthorized fees.

15. Use the "Need → Product" Method

Never start with:

"I want to sell you a loan."

Instead:

Step 1 — Identify need

"What are you trying to achieve?"

Step 2 — Understand financial situation

"How do you currently finance it?"

Step 3 — Explain relevant options

"There are banking options that may be relevant."

Step 4 — Explain conditions

- Eligibility
- Cost
- Repayment
- Risks
- Important terms

Step 5 — Let the customer decide

This is **needs-based selling**, not pressure selling.

16. Segment Prospects

Create categories.

Prospect	**Likely need**
Farmer	KCC/agricultural finance/savings
SHG member	Savings/credit/insurance/pension
Small trader	Current account/digital payments/working capital
Salaried person	Savings/deposit/insurance/credit
Student	Account/digital banking/education finance where applicable
Senior citizen	Deposits/pension/digital assistance
Small manufacturer	Working capital/equipment finance
Women entrepreneur	Savings/enterprise credit/insurance
Daily-income worker	Savings/remittance/insurance

Prospect	Likely need
Existing customer	Additional appropriate services

17. Maintain a Prospect Register

A BC/BF should maintain an appropriate **prospect/customer-lead register** according to the bank's systems and privacy requirements.

Possible fields:

Prospect	Area	Occupation	Need	Status	Next action
A	Village 1	Farmer	KCC	Interested	Application guidance
B	Village 1	Trader	Digital payments	Interested	Product demonstration
C	Village 2	SHG member	Savings	New lead	KYC guidance
D	Village 3	MSME	Working capital	Under discussion	Bank referral

This turns customer acquisition into a **systematic process**.

18. Use a Prospect Funnel

Think of customer acquisition as:

PEOPLE IN AREA
↓
IDENTIFY PROSPECTS
↓
FINANCIAL NEEDS ASSESSMENT
↓
AWARENESS
↓
INTERESTED
↓
ELIGIBILITY / KYC
↓
APPLICATION / FACILITATION
↓
BANK PROCESS
↓
CUSTOMER ONBOARDING
↓
FIRST TRANSACTION
↓
ACTIVE BANK CUSTOMER
↓
LONG-TERM RELATIONSHIP

19. Don't Measure Success Only by Accounts Opened

A major mistake is to focus only on:

"How many accounts did I open?"

Better measures are:

Acquisition

- New customers.
- New accounts.

Activation

- First transaction.
- Regular transactions.

Usage

- Deposits.
- Digital payments.
- Remittances.
- Other appropriate services.

Credit

- Eligible loan applications.
- Sanctioned/disbursed credit.
- Repayment performance.

Protection

- Appropriate insurance/pension awareness/enrolment.

Quality

- Complaints.
- Dormant accounts.
- Fraud incidents.
- Customer satisfaction.

NABARD's Bank Sakhi experience specifically highlights **dormancy and inactive accounts** as important issues, illustrating why meaningful usage matters beyond account opening. (NABARD)

20. Use a "Village Banking Day"

For each village, establish a regular schedule.

Example

Monday: Village A
Tuesday: Village B
Wednesday: Village C
Thursday: Market/SHGs
Friday: Farmer groups/MSMEs
Saturday: Follow-up + documentation

Customers then know:

"The bank's representative will be available here every Tuesday."

Consistency builds trust.

21. Create a Village Financial Calendar

Map important financial events:

Agriculture

- Sowing season.
- Harvest.
- Procurement.
- Agricultural input purchases.

Business

- Market seasons.
- Festival demand.
- School season.
- Tourism/seasonal business.

Household

- School fees.
- Marriage/social expenditure.
- Pension dates.
- Wage cycles.

Then plan financial-literacy and service activities around actual cash-flow patterns.

22. Find Borrowers Through Existing Bank Relationships

For credit promotion, don't randomly approach everyone.

Identify legitimate potential borrowers through:

- Existing deposit customers.
- Existing SHGs/JLGs.
- Farmers' groups.
- MSMEs.
- Existing business customers.
- Customers approaching the bank for specific financial needs.

Then assess whether they are **eligible and suitable**, rather than promising credit.

23. Use "Credit Need Mapping"

For every locality, prepare a simple matrix:

Area	Agriculture	MSME	Housing	Education	Digital payments	Insurance/Pension
Village A	High	Medium	Low	Medium	High	High
Village B	Medium	High	Medium	High	High	Medium

This tells the BC/BF **what to promote and where**.

24. DRA's Role Is Different

This is very important.

A **DRA should not be used as a general customer-acquisition salesperson**.

The DRA's primary role is **recovery of outstanding bank dues**.

However, while dealing with borrowers, the DRA can:

- Communicate legitimate dues.
- Encourage regular repayment.
- Explain authorized repayment processes.
- Identify genuine financial difficulty.
- Refer borrowers to the bank for permitted resolution options.
- Encourage use of authorized repayment channels.

DRA should NOT:

❌ Pressure a borrower to take another loan merely to repay an old loan.

❌ Make unauthorized settlement promises.

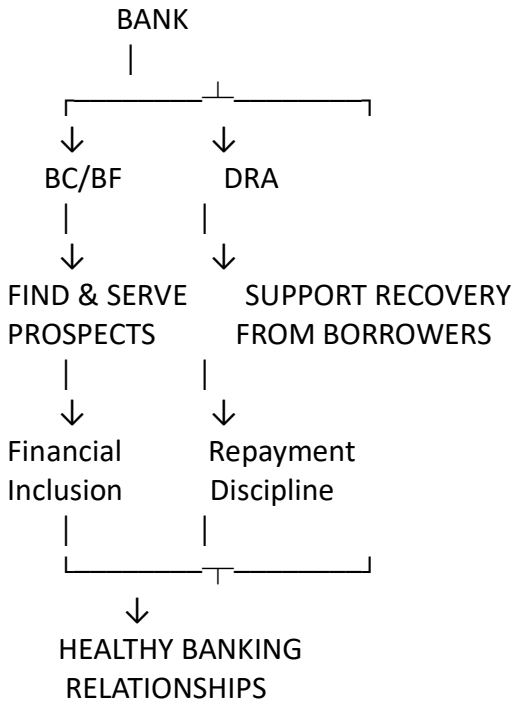
❌ Sell unrelated products through coercion.

❌ Threaten borrowers.

❌ Use recovery as a pretext for cross-selling.

25. Use BC/BF for Acquisition and DRA for Recovery

A clean organizational model is:



26. The Best Customer-Acquisition Strategy
Use **five concentric circles**:
Circle 1 — Existing customers
Find additional legitimate needs.
Circle 2 — Their households
Identify other eligible family members' banking needs without compromising privacy.
Circle 3 — Community groups
SHGs, Farmers' Clubs, JLGs, cooperatives, traders.
Circle 4 — Local economic clusters
Markets, farms, workshops, shops, enterprises.
Circle 5 — Unbanked/underbanked households
Door-to-door financial inclusion outreach.

27. Build Trust Before Asking for Business
A powerful rural BC/BF strategy is:
First visit
Financial literacy
Second interaction
Understand needs
Third interaction
Explain appropriate products
Fourth interaction
Facilitate application/account/service
Later
Support and follow up
This is much more sustainable than aggressive product selling.

28. Special Strategy for Women
Women can be reached effectively through:

- SHGs.
- Women's community groups.
- Livelihood groups.
- Bank Sakhis/SHG members where the bank uses that model.

NABARD's Bank Sakhi experience found that community-based SHG members could effectively serve as banking agents and reach rural households, including women who may otherwise be financially excluded. (NABARD)

29. Special Strategy for Youth
Use:

- Colleges.
- Skill centers.
- Vocational institutions.
- Youth groups.
- Employment clusters.

Focus on:

- Savings.
- Digital banking.
- UPI safety.
- Financial literacy.
- Responsible credit.
- Insurance/pension awareness.

30. Special Strategy for Senior Citizens

Use:

- Doorstep assistance where authorized.
- Community meetings.
- Pension-related touchpoints.
- Simple demonstrations.

Focus on:

- Safe banking.
- Fraud prevention.
- Digital assistance.
- Nomination awareness.
- Pension/deposit services.

31. Special Strategy for Small Traders

A simple conversation:

"How do customers pay you?"
"Where do you keep business receipts?"
"Do you separate personal and business money?"
"Do you need working capital?"

Then explain relevant banking solutions if appropriate.

32. Special Strategy for Farmers

Ask:

"What is your main source of income?"

Then:

"When do you need money during the agricultural cycle?"

Then:

"How do you currently finance those requirements?"

Only then introduce appropriate banking products.

33. Build a "Financial Inclusion Village"

For each village, aim to achieve:

- Household bank-account coverage.
- Regular account usage.
- Digital-payment awareness.
- Financial-literacy coverage.
- Insurance/pension awareness.
- Responsible credit access.
- Complaint-awareness.
- Fraud-awareness.

The goal is:

Not merely banked villages, but financially capable villages.

34. A 30-Day BC/BF Customer Acquisition Plan

Week 1 — Mapping

- Map villages/wards.
- Identify groups.
- Identify businesses.
- Identify unbanked/underbanked areas.
- Prepare prospect list.

Week 2 — Awareness

- Conduct SHG meetings.
- Conduct farmer meetings.
- Conduct trader visits.
- Conduct financial-literacy camps.

Week 3 — Facilitation

- Help eligible prospects with applications.
- Facilitate account/service onboarding.
- Demonstrate digital banking.
- Connect credit prospects to the bank.

Week 4 — Activation & Follow-up

- Ensure first transactions.
- Resolve onboarding issues.
- Follow up on applications.
- Conduct fraud-awareness sessions.
- Identify new referrals.

Then repeat the cycle.

35. Most Important Ethical Rules

While acquiring customers, BC/BF must never:

- Open accounts without proper customer consent.
- Create artificial accounts/transactions.
- Misrepresent products.
- Guarantee loans.
- Hide charges.
- Force insurance/pension products.
- Collect unauthorized fees.
- Ask for OTP/PIN/password.
- Misuse customer data.
- Discriminate between customers.

The objective should be:

Right customer + right product + right information + right service

—not maximum sales at any cost.

36. Final Customer-Acquisition Model

MAP THE AREA
↓
IDENTIFY COMMUNITIES
↓
FIND SHGs / FARMERS /
TRADERS / MSMEs / HOUSEHOLDS
↓
FINANCIAL NEED SURVEY
↓
SEGMENT PROSPECTS
↓
FINANCIAL EDUCATION
↓
NEED-BASED EXPLANATION
↓
ELIGIBILITY / KYC PROCESS
↓
BANK APPLICATION /
ONBOARDING
↓
FIRST TRANSACTION
↓
REGULAR SERVICE USAGE
↓
APPROPRIATE CROSS-SERVICE
OPPORTUNITIES
↓
CUSTOMER RELATIONSHIP
↓
TIMELY REPAYMENT / SAVING
↓
LONG-TERM BANK CUSTOMER

Exam-Ready Answer

BC/BFs can find and convert people into bank customers in suburban and rural areas by systematically mapping villages and communities, identifying unbanked and underbanked households, approaching SHGs, Farmers' Clubs, JLGs, cooperatives, traders and local enterprises, conducting financial-literacy and banking camps, identifying customer needs, explaining suitable banking products, facilitating KYC and applications, promoting savings and digital payments, and providing post-onboarding support. Existing customers should also be studied for additional appropriate banking needs. Customer acquisition should be needs-based and ethical rather than pressure-based.

For credit promotion, BC/BFs should identify genuine financing requirements and facilitate applications within their authority; the bank remains responsible for appraisal and sanction. DRAs have a different primary role: they should focus on lawful recovery from existing borrowers, understand repayment difficulties,

communicate legitimate dues and refer borrowers to the bank for authorized resolution options. DRAs should not use recovery activity for coercive cross-selling or force borrowers to take additional loans.
The most effective model is: Map → Identify → Educate → Assess needs → Facilitate → Onboard → Activate → Serve → Follow up → Build trust.
The key idea
In rural and suburban banking, the best customer-acquisition strategy is not "find people and sell loans"; it is "find financial needs, solve legitimate needs through appropriate banking services, and build long-term trust." (Reserve Bank of India)